

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

EASTERN EUROPE

West's food groups  
have a hungry look

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## World News

### US preparing for possible release of hostages

The US is making preparations for the possible release of a British and an American hostage held by kidnappers in Lebanon, Marlin Fitzwater, the White House spokesman, said.

In contrast to previous very cautious official statements, Mr Fitzwater said the US had received "a number of reports" from diplomatic sources in the Middle East and from the Swiss who had reported on the "rumour of a hostage release".

**Iraq buffer zone created**  
Turkey established a three-mile buffer zone inside northern Iraq as its ground and air forces pounded positions occupied by guerrillas belonging to the Kurdish Workers Party, the Turkish separatist movement fighting for an independent Kurdistan in south-east Turkey.

**Explosions on oil rig**  
The Fulmar Alpha oil platform in the North Sea off Britain's east coast was rocked by a series of explosions which left two men and a woman injured and led to the evacuation of 40 workers.

**Mandela warns de Klerk**  
Nelson Mandela, the leader of the African National Congress, returned from an overseas tour and immediately said he would put pressure on South African president F W de Klerk to accept his proposals for an interim government.

**Iraq 'breached pact'**  
The International Atomic Energy Agency said Iraq's secret attempts to produce plutonium breached a nuclear pact signed by Baghdad.

**Kanada challenge fails**  
A businessman who wanted to wrest Zambia's presidency from veteran ruler Kenneth Kaunda withdrew his challenge two days before a crucial vote on the issue by the ruling party. Enoch Ravindale said he had taken the decision in the interests of party unity.

**Britain accuses Israel**  
Britain accused Israel of damaging Middle East peace prospects by building more settlements in the occupied Arab territories. The Foreign Office described the action as "illegal and provocative".

**Communist cash crisis**  
The Soviet Communist party is hemorrhaging money at the rate of Rblbn (£300m) a year and will soon face a cash crisis, according to Otto Letals, one of the main liberal influences on the revised programme now being discussed in the party.

**Morocco poll in jeopardy**  
Fighting which has flared between Morocco and the Polisario Front in the western Sahara after a full of almost two years could jeopardise United Nations plans for a September 6 ceasefire and a referendum in January.

**Cyprus 'accord' denied**  
Turkish officials denied reports that the Turkish Cypriot side had agreed to return territory seized in the 1974 invasion of Cyprus as part of a settlement to end the 17-year-old division of the island.

**Terrorist pardon wanted**  
President Francisco Cossiga said he wanted to pardon Dr Renato Curcio, the founder of the Red Brigades leftist terrorist group, despite public pressure to keep him in jail. Dr Curcio, imprisoned in 1976, is eligible for parole in 2002.

**Fire at insurance centre**  
Fire badly damaged a new City of London insurance centre and set back its opening.

## Business Summary

### Executive Life to be taken on by French consortium

A consortium of French investors, including MAIF, the large mutual insurer, has agreed to take over the business of Executive Life, the Californian insurance company seized by the state regulators in April.

The consortium of Executive Life's large junk bond portfolio will be acquired by Altus Finance, part of the Credit Lyonnais banking group, for \$2.7bn.

**CHRYSLER** US car manufacturer, plans to raise some \$400m through a public share offering designed to strengthen its balance sheet, bolster its depleted reserves of cash and help its credit rating.

**DOLLAR** The US currency's resilience in the face of the Fed funds rate cut - it fell by less than a penny against the D-Mark when the news was announced and rose yesterday - suggests that its recent frailty may have run its course.

**GERMANY** Nearly one fifth of the land of east Germany has been handed over to a German banking consortium which will try to sell it on behalf of the Treuhand privatisation agency.

**HEINEKEN** Dutch beer group, has made its first foray into eastern Europe with the purchase of a 50.3 per cent stake in the Hungarian Komarom Sörgyár brewery, near Budapest.

**STANDARD** Chartered, the international banking group, reported a 26 per cent fall to \$28m (\$141.95m) in pre-tax profit for the first six months of 1991 compared with the same period last year.

**AIRBUS INDUSTRIE**, the four-nation European aircraft manufacturer consortium, said in its annual report that it expected the distance travelled world-wide by paying passengers to increase by 5.3 per cent a year over the next 20 years.

**AUSTRALIA'S** Labor government plans tougher curbs on cross-ownership of media assets to prevent indirect control of "associates" of politicians.

**HAMAMATSU** Photonics, the Japanese company planning to buy the light sensing business of Thorn EMI, warned it might pull out of the deal after the bid's referral to the Monopolies and Mergers Commission.

**OMAN** The Sultanate of Oman is borrowing \$300m in the syndicated loans market through Bankers Trust and J.P. Morgan.

**US economy** is improving but at a slow and uneven pace, according to the Federal Reserve's latest Beige Book assessment of regional economic trends.

**HONDA** Japanese car maker, plans to increase its European dealer network to around 2,000 by the mid-1990s from nearly 1,500 at present.

**NORWAY**, a member of Nato, is to ease CoCom rules restricting sales of high-tech western goods to the non-Nato countries Austria, Finland, Ireland, Sweden and Switzerland.

**SMITHS INDUSTRIES**, British-based aerospace and medical equipment group, significantly strengthened its position in the US aerospace industry by winning developments contracts from the US military which should lead to orders worth almost \$400m.

**AMERICA** West, US airline which filed for Chapter 11 bankruptcy protection in late June, may cut some 1,500 jobs.

## Luxembourg threat to liquidate BCCI

By Andrew Hill in Brussels

CHANCES of a rescue of the Bank of Credit and Commerce International (BCCI) appeared even slimmer last night after bank regulators in Luxembourg threatened to liquidate the bank's European operations unless depositors outside the UK received compensation.

Mr Pierre Jaans, director-general of the Institut Monétaire Luxembourgeois (IML), which supervises the Grand Duchy's banking sector, said yesterday he would ask a Luxembourg court to liquidate BCCI, unless Abu Dhabi extended its \$50m (\$85m) compensation package to the bank's depositors and employees outside the UK.

Liquidation of BCCI (SA), would almost certainly eliminate any chance of BCCI being rescued. BCCI is a Luxembourg-registered company, and a liquidation order in the Dutch would override the UK High Court's decision last week to grant a four-month breathing space to BCCI's majority shareholders.

UK officials said last night that Mr Jaans' move could have a dramatic impact on BCCI's fate by triggering a formal winding up, and removing the one condition under which Abu Dhabi agreed to discuss a possible rescue.

The High Court ruling followed Abu Dhabi's promise of compensation to British employees and depositors, and was designed to give shareholders time to explore a possible rescue of the bank.

The DML faxed a letter to Abu Dhabi on Friday, asking for the compensation package to be extended to BCCI's Luxembourg depositors and 65 employees but has yet to receive a reply.

An increasingly acrimonious row is brewing in Washington over the confidentiality of documents relating to fraud at BCCI. The war of words surrounds talks at the US Federal Reserve between Mr Eddie George, the deputy governor of the Bank of England, and Mr Alan Greenspan, chairman of the Federal Reserve Board.

Yesterday, Mr Jaans said he was "reasonably optimistic" about Abu Dhabi's response but added that he would consider a refusal to extend the compensation package as "a new element" which would justify a call for liquidation before the end of the four-month period.

Early liquidation of BCCI's European operations would please the Bank of England, which has made two unsuccessful attempts to have BCCI wound up in London. It would also automatically trigger a payment to depositors from official depositor protection funds in the UK and Luxembourg.

But it would remove the central condition on which Abu Dhabi insisted before it would agree to talk about a rescue - that the bank not be put into liquidation.

BCCI's complicated international structure left it open to several countries to attempt a winding up. However UK officials indicated last night that it was their understanding that a Luxembourg order would override a UK court order because BCCI was registered in the Dutch. But though this would trigger the UK depositor protection pay-out, it would be up to the provisional liquidator of the Bank of England to go back to the High Court and seek a review.

The minister, who is resisting calls for his resignation over the affair, made his promise to a packed session of the Japanese Diet (parliament). His ministry is planning to present to MPs revisions of the Securities and Exchange Law which could include prison sentences as well as fines for brokers and investors found guilty of running compensation schemes for losses incurred in the stock market.

Meanwhile yesterday, lawyers acting for three US institutional investors confirmed their intention to sue the Japanese securities houses involved for "tens of millions of dollars" for losses they suffered in the securities markets as a result of the compensation scandal.

Mr Charles Stevens, senior East Asian partner of Coudert Brothers, the US law firm handling the cases, said suits would be filed in the US against 17 Japanese securities houses or their subsidiaries by the beginning of September.

The identity of the three institutional investors could not be revealed until then, he said, but they were all mutual funds with household names which had bought Japanese shares through the US arms of Japanese brokerage houses.

Mr Hashimoto is trying to contain the damage caused to his ministry's reputation by scandals involving brokers paying compensation to favoured clients, as well as dealing with gangsters and stock-corners.

The finance ministry is expected to present a package of measures to the Diet before the end of the month. It is also working on a thorough revamp of the regulation of the securities industry, in response to claims that it was partly responsible for the stock-loss compensation scandal because it had known what had been going on.

Mr Hashimoto told the Diet that the ministry should stop protecting securities companies from competition and Continued on Page 12

Tragic figure at the heart of a scandal, Page 6

World stocks, Page 29

## Western European Union fails to decide what action to take

### Yugoslav ceasefire breached

By Judy Dempsey in London

THE YUGOSLAV ceasefire was breached yesterday within hours of coming into effect amid conflicting signals from western governments about how to bring warring factions to the negotiating table.

Officials in Croatia accused Serbs of firing dozens of mortars in a village near Zagreb, the Croatian capital. Mr Milan Brezak, Croatia's deputy interior minister, said militant Serbs fired 102 mortars in and around Saborsko, 50km south of Zagreb.

"I cannot guarantee that the [Croatian] ministry will not retaliate," he said. Yugoslavia's collective presidency agreed on Tuesday to a ceasefire which came into effect yesterday at 6am.

The breach of the ceasefire coincided with the failure of the nine-member Western European Union defence alliance to decide what measures, if any, it might take to preserve peace.

A spokesman for the WEU, whose member country ambassadors met in London yesterday, said it would continue to "review the present situation in Yugoslavia. The nine agreed to continue to reflect on possible concrete contributions... taking into account

the efforts made by international forums, by the European Community and the CSCE [Conference on Security and Co-operation in Europe]."

The new crisis management set up by the 35-member CSCE will meet today in Prague. The meeting is intended to widen international pressure on Yugoslav leaders to implement a lasting ceasefire.

Several European governments stepped up their efforts to find a solution to Yugoslavia's worst crisis since the Second World War.

President François Mitterrand of France yesterday proposed that a popular vote, supervised by international observers, should be held in Yugoslavia. This is not likely to prove acceptable to several republics whose voters would be outnumbered by the 9.5m-strong Serb community.

Yesterday, the parliament in Macedonia, one of Yugoslavia's poorest republics, voted to hold a referendum next month on independence. Following referendums, the republics of Slovenia and Croatia declared their independence on June 25.

Continued on Page 12



Croat children play yesterday in front of a house damaged by fighting in Osijek

## UK companies to cut jobs amid gloom on recession

By Andrew Bolger in London

UK COMPANY executives as yet see no end to Britain's current economic downturn and are continuing to cut jobs, according to a series of gloomy results yesterday from leading companies.

However, the profit figures they released were still generally better than expected and most share prices rose on the London stock market.

The FT-SE 100 index closed 24.1 higher on the day at 2,597.4, helped by Wall Street's strong overnight performance.

British Airways blamed the after-effects of the Gulf war and recession in the UK and the US for the plunge in its pre-tax profits from £1.494m to £2m in its first quarter to the end of June.

Lord King, chairman, expected no improvement in traffic during the second quarter to September, and said the airline had almost completed a reduction in its workforce of 4,000 people.

GEN, the UK components, industrial services and defence group, could also see no hard evidence of improvement in the recessionary conditions affecting its main markets.

These it said accounted for the halving of interim pre-tax profits to £1.75m.

Sir David Lees, GKN chairman, said: "Possibly the prospects are a little brighter in America but Continental Europe looks, if anything, rather weaker. In the UK I do not believe we shall see an upturn before the end of the year."

The company has announced about 2,500 redundancies in the last 18 months - of which close to 2,000 have been in the UK. Sir David said hundreds more jobs may be cut in the second half of 1991.

Courage, Britain's second-largest brewer, maintained the gloom on the employment front by saying it would cut 1,400 jobs over the next 12 months as it integrated the brewing operations acquired from the Grand Metropolitan

hotels and leisure group in a £2.36bn deal earlier this year.

Commercial Union set the tone for what is likely to prove a miserable series of figures from the UK composite (life and general) insurers, by reporting a pre-tax loss of £26.3m in the half-year to June.

CU was the only one of the UK's five composites to stay in the black throughout 1990. It pointed to competition and heavy recession-related claims in reporting recent underwriting losses in the UK, but said profits from its life insurance business continued to grow.

From the banking sector, Standard Chartered ended a depressing round of results by recording a drop in interim profits from £110m to £83m.

The figures were, however, much better than expected and on the stock market Standard Chartered shares closed 20p higher at 390p.

Courage to cut jobs, Page 7

Lex, Page 12

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## MARKETS

### Cresson turns up the heat on immigration debate

France's outspoken prime minister has taken on one of the country's most contentious issues, turning traditional socialist policies on their head by suggesting the mass expulsion of illegal immigrants.

Financial Futures

STERLING	
New York lunchtime:	
\$1.7135	
London:	
\$1.714 (1.712)	
DM2.83 (2.825)	
FF16.95 (16.975)	
¥135.9 (135.9)	
£ index 91.0 (91.1)	
GOLD	
New York: Comex Dec	
\$328.6 (303.1)	
\$357.15 (357.7)	
W. SEA OIL (Argus)	
Brent Sep	
\$19.42 (19.525)	
Chief price changes	
yesterday: Page 13	

DOLLAR	
New York lunchtime:	
DM1.71	
FF15.915	
¥135.9	
London:	
DM1.71 (1.7125)	
FF15.915 (15.9225)	
¥135.9 (135.9)	
£ index 91.0 (91.1)	
Tokyo close: ¥136.0	
US lunchtime rates	
Fed Funds: 5 1/2%	
3-mo Treasury	
Bills: 5.25%	
Long Bond:	
90 1/2	
yield: 8.177%	

STOCK INDICES	
FT-SE 100:	
2,597.4 (+24.1)	
FT Ordinary:	
2,014.9 (+25.9)	
FT-A All-Share:	
1,239.57 (+0.8%)	
New York lunchtime:	
DJ Ind. Av.	
3,025.4 (+1.12)	
S&P Comp	
380.84 (+0.22)	
Tokyo Nikkei	
23,691.02 (+228.05)	
LONDON MONEY	
3-month interbank:	
10 1/2 (10 1/2)	
Libor long gilt future:	
95 1/2 (95 1/2)	

The memorandum containing summary details of the 50 enterprises within Phase One is now available from Bankers Trust International PLC, advisor to the Ministry of Industry:

Christine Chinnery  
London Office  
Tel: 44-71-982 2003  
Fax: 44-71-982 2281

Eileen O'Meara  
New York Office  
Tel: 1-212-454 3900  
Fax: 1-212-454 1704

Charles Martin  
Tokyo Office  
Tel: 81-3-3286 0726  
Fax: 81-3-3211 7875

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## EUROPEAN NEWS

## Airbus forecasts 5.3% air travel growth

By Paul Abrahams

AIRBUS Industrie yesterday, shrugging off short-term difficulties in the civil aviation sector when it announced that underlying passenger growth would remain strong over the next 20 years.

In its annual market report, Airbus, the four-nation European aircraft manufacturing consortium, said it expected the number of kilometres travelled world-wide by paying passengers to increase by 5.3 per cent a year - a figure unchanged since its report last year.

The group said the fastest

growth in passenger demand would be in the Asia-Pacific region, which would average at 7.8 per cent between 1990 and 2009. The Middle East would be the next fastest area averaging about 5.3 per cent.

The slowest were Europe at 4.8 per cent and North America at 4.1 per cent.

Airbus admitted it may take some time for the dual effects of the Gulf war and the downturn in the world economy to be overcome, however.

The report argued that

increasing congestion problems both in the air and in the sky will accelerate demand for wide-body aircraft. Average aircraft size, presently at 174 seats will increase to 241 seats by the year 2011.

The number of aircraft in the world will grow from 10,000 in 1987 to as many as 14,000 aircraft within 20 years. This means some 11,500 new aircraft will have to be delivered at a rate of between 500 and 600 jets a year. This represents an investment of about \$700bn in 1990 terms. The rate of deliveries will have to be greater during the first half of the 1990s, because of the need

to replace old narrow bodied aircraft, said the report.

Aircraft acquisition will be highly dependent on the willingness of airlines to replace old fleets, Airbus warned. Of the 11,500 new aircraft, some 7,100 of these will be replacing existing jets. It expects some 2,200 narrow-body jets and 500 wide-bodied aircraft to be replaced within five years.

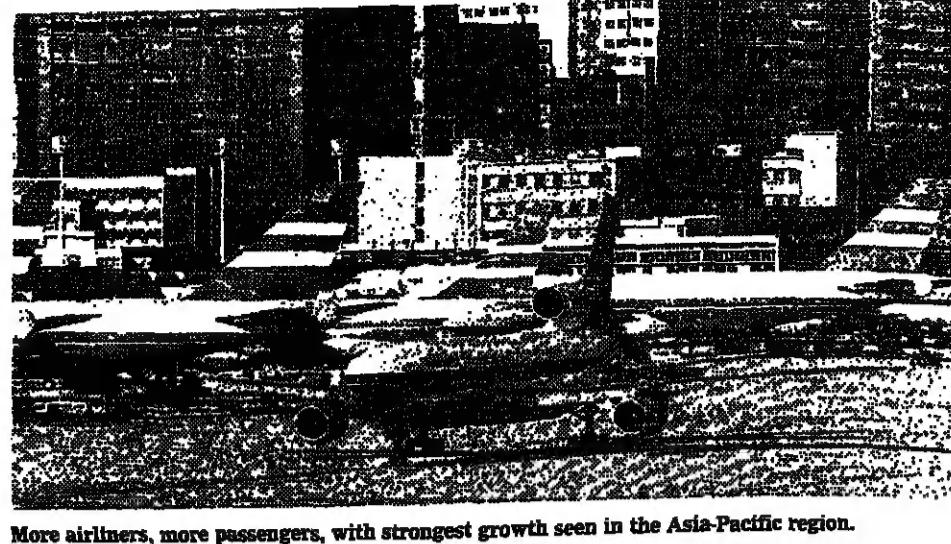
It added that airlines will need to find creative financing schemes if they are to achieve these replacements, which would provide growing opportunities for leasing companies

to place a higher proportion of aircraft with large carriers.

The group admitted that the cyclical behaviour of the industry, airlines' poor return on capital and increasing fears about the environment could restrain growth in aircraft sales.

However, it argued that economic growth, the absence of any viable alternative to air travel and ageing jets would ensure healthy demand.

"Market perspectives for civil jet aircraft, 1991," Airbus Industrie firm on support, Letter, Page 11



More airliners, more passengers, with strongest growth seen in the Asia-Pacific region.

## Dilemma for EC with no peace to keep

Yugoslavia is forcing the Twelve to confront some differences, writes David Gardner

THE European Community this week came up against the limits of its ability to influence events in Yugoslavia.

At the Hague on Tuesday, where the Twelve's foreign ministers assembled hastily to propel forward the EC's stalled attempt to bring about a negotiated settlement to Yugoslavia's ethnic feuding, the Community was able to do little more than enhance its existing policy.

That came to grief at the weekend when the EC failed to secure a ceasefire in secessionist Croatia between Croats and the minority Serbs, fighting to join their enclaves to a Greater Serbia.

The ministers seemed at first slight divided, and were certainly feeling frustrated by the obstacles to shaping peacefully the disintegrating Yugoslav federation's future.

These obstacles are Serbian intransigence, the constraints of international law and procedure, and emerging divisions within the EC, which appear magnified by the very intractability of the crisis.

The Serbian leadership has in effect refused even to allow the EC's team of 200 monitors in Yugoslavia to witness at first hand the relationship between Serbian paramilitaries in Croatia and the Serb-dominated federal army. The prospects of it agreeing to an EC-sponsored peacekeeping force - as suggested by France - were therefore nil. While this remains the case, Mr Slobodan Milosevic, the president of Serbia, holds the key to developments.

The EC package of measures therefore tries to target pressure on the Serbian leadership in two main ways. The more than \$1bn in Community aid and credit to Yugoslavia frozen last month may now be released selectively to those republics supporting EC mediation. But the aid lever has so far failed to impress Mr Milosevic and his allies, who may well have carved out Greater Serbia before the end of the month.

Mr Hans van den Broek, foreign minister of the Netherlands which currently holds the EC presidency, has there-



Croatian national guard member at the entrance to a bunker that protects him from Serbian mortar fire

fore warned the Serbians that they will be treated as an outlaw state if they alter Yugoslavia's internal borders by force.

"Trying to arrive at a fait accompli is just not on, and will be counteracted by us through all means possible," he said, stressing that he meant peaceful means.

International law, let alone the fact that the EC as such has no defence dimension, means that the Community can now do little more than gather the widest possible support for this view. "While there is no peace to keep, what we would have would be an

opposed landing" by troops from EC member states, a senior EC official pointed out.

Only the UN Security Council, should it choose to decide that, for example, the Yugoslav crisis presented a threat to international peace and security, could provide the legal authority to send in a buffer force to separate Serbs and Croats. At the moment it is most unlikely that the security council would even try, especially in view of the warning this week from the Soviet Union against military intervention.

The EC is therefore harnessing support on three fronts:

● The 35-nation Conference on Security and Co-operation in Europe. The CSCE includes the US and Soviet Union, and at its meeting in Prague today is expected to endorse the EC line.

● The UN Security Council. France as current president, the UK, as the other EC permanent member, and Belgium as non-permanent member, are to keep the council abreast of EC actions, "with a view to the Security Council taking such actions as may be deemed appropriate."

● The Western European Union. The nine-nation WEU, which France sees as the nucleus of Europe's future defence identity and the UK sees as a bridge between the EC and the North Atlantic Treaty Organisation, is to ready itself for the possible supervision of "an agreed ceasefire", should one take hold.

There is little more, at this stage, that the EC can do, and what it has done throughout the crisis has been agreed unanimously. The member states do approach the crisis with differing concerns, interests and agendas, but these have not widened into divisions - yet.

Disentangling these concerns is not easy. France, for instance, is seen by some as traditionally pro-Serb and opposed to German suggestions that Slovenian and Croatian independence be recognised. This is said to be through fear of a new "Teutonic bloc" emerging, and/or to discourage its Corsican separatists.

Yet the continuing insistence of Mr Roland Dumas, France's foreign minister, that a WEU force may eventually have to "interpose" itself in Croatia could - if carried out - greatly strengthen the Croat case for recognition. What appears overriding in the French position is its vision of Europe's defence future.

This aspect of the French posture may cause division in so far as it is seen to be prejudging the debate - unresolved within the European political union negotiations - on what sort of foreign

and security policy, and eventually defence policy, the EC should have. The Yugoslav crisis itself undoubtedly strengthens the case of France and its EC allies.

Even UK officials recognise that the Community has in practice started operating a common foreign policy. But they still strongly resist the idea that in future this policy will have to be agreed by majority vote rather than unanimity.

At the Luxembourg summit in June, Mr Felipe Gonzalez, the Spanish prime minister, pointed out that Spain had proven with its national minorities that it was possible to have self-determination within existing nation-states.

The mainstays, Basque and Catalan nationalists, with their limited autonomy, disagree, and see the precedent of German unification and the emerging "new Europe" as a long-term opportunity to gain independence.

But at the core of the EC's effort to get a ceasefire and contain negotiations on Yugoslavia's future is the statement issued on Tuesday by the Twelve that "any change of internal and international borders by force is not acceptable."

Mr Gianni De Michelis, Italy's foreign minister, observed that this was one of the most important results of the emergency deliberations.

It brings comfort to those member states with restive national minorities. But it offers no guarantee that the EC can avoid deep divisions when the time comes for it to recognise whatever mosaic emerges from Yugoslavia.

## Reshuffle of Greek cabinet awaited

By Karin Hope in Athens

THE GREEK cabinet resigned yesterday in preparation for a government reshuffle, but it was unclear whether Mr Constantinos Mitsotakis, the prime minister, would manage to reduce the number of ministerial posts as he wants to do.

The new cabinet list, which should have been issued a few hours later, was delayed amid reports that several ministers were refusing to give up their present portfolios.

Mr Mitsotakis, who says the cabinet is too large to operate efficiently, wants to downgrade at least three ministerial jobs to under-secretary level and merge the ministries of industry and trade.

However, his plans are being resisted strongly by powerful members of the governing New Democracy party, and may be watered down.

The party barons are already annoyed at the influence wielded by the prime minister's inner circle of advisers. This includes his daughter, Mrs Dora Bakoyianis, who holds a junior cabinet post and whose job would almost certainly be abolished if Mr Mitsotakis plans go through. She has tried to avert further criticism by saying she would rather not serve in the next cabinet.

## Commission demands subsidy refund

THE European Commission said yesterday it had ordered 31 German companies to pay back a total of DM25.257m (£11.5m) in illegal subsidies, AP reports from Brussels.

The subsidies were paid out by the city of Hamburg between 1986 and 1988 as an incentive to stop companies leaving the city. The subsidies were not notified to the Commission, as legally required, and the federal government at one stage denied most of them had been made.

The German government has been given until October 2 to tell Brussels what steps it has taken to ensure the subsidies are repaid. Hamburg claimed the subsidies counted as regional aid permitted by the Community.

## East German prices up sharply

Prices in eastern Germany rose by a sixth in the first year of economic union with the west, the Federal Statistics Office said yesterday, AP reports from Berlin.

The office also said inflation in western Germany was rising because of taxes to support unification. This follows the release of statistics on Tuesday showing unemployment rising steeply to 12.1 per cent in eastern Germany.

Prices in eastern Germany rose 16.4 per cent from July 1990 to June 1991 while in western Germany prices rose 4.4 per cent in the 12 months to the end of July.

## Russian party chief promises to co-operate

By John Lloyd in Moscow

THE Russian Communist Party's new leader, Mr Valentin Kuptsov, yesterday promised co-operation with President Mikhail Gorbachev, Mr Boris Yeltsin, the Russian president, and "other political forces".

For the past year, the Russian leadership has been a thorn in the side of Soviet reform and latterly an unyielding critic of Mr Gorbachev. However, on Tuesday night the party accepted the resignation of the discredited Mr Ivan Polozkov as general secretary and elected unopposed in his stead Mr Kuptsov, a former secretary of the central committee of the Soviet Communist party.

Mr Polozkov spent an unhappy year in office watching Mr Yeltsin plan to unseat him, liberal communists leave the party or reject his leadership, the humiliation of the party in the Russian, Moscow and Leningrad polls, the desertion from his side of his hard-line allies and, last weekend,

the formation of an alternative Russian Communist Party.

Mr Kuptsov, speaking after a stormy central committee plenum of the Russian party, revealed himself as a quintessential apparatchik.

While promising better co-operation, he said he opposed Mr Yeltsin's decree which has forced the party to wind up its branches at workplaces. Mr Kuptsov said he would use "all opportunities" to oppose it - but in the end, the party would abide by it if it proved to be constitutional.

He was accompanied at a post-plenum press conference by Mr Gennady Zuzanov, a member of the Russian party politburo and an unrepentant hardliner.

Mr Zuzanov, clearly restive under his new leader, said the party opposed the present turn to the market "because 90 per cent of it is criminal and if you go on there will be a dictatorship, which I don't want because I'm a democrat".

## Cash crisis faces Soviet communists

By John Lloyd

THE Soviet Communist Party is hemorrhaging money at the rate of Rblbn (\$568m) a year and will soon face a cash crisis, according to Mr Otto Letsis, one of the main liberal influences on the revised programme now being discussed in the party.

Funds were being drained by plummeting sales of all party publications, widespread non-payment of dues and an end to the many hidden subsidies paid to the party by the state and enterprises, Mr Letsis said.

The party was having to draw on a R4.5bn fund - some of it meant for pensions - set up by the communist party at its 28th congress last July.

The struggle within the party, he said, was not about property but about power, and control of the party press. At the same time, however, the party was beginning to capitalise on its huge real estate holdings - renting some out to foreign businesses, and establishing co-operatives and joint ventures.

Mr Letsis, who is also deputy chief editor of the party journal, Kommunist, said hardliners in the party were now partying hard to ensure that they would control the majority of the delegates at the next congress, due to take place in November or December.

He said the fight over the programme, criticised by the hardliners for being social democratic in content, would take place there and could result in a split. It might even force the resignation of President Mikhail Gorbachev as party leader.

The programme, revised over the past two weeks after being adopted last month by the central committee plenum

as the basis for discussion, will be published today. Mr Letsis said it had suffered many changes, "but it remains the same in conception."

The commission drafting the party programme had discussed on Monday the differences between the present-day communist and social democracy. It concluded that social democrats wanted redistribution on the basis of private property, while communists thought that "in a mixed economy, state property should have priority."

It was on this basis, said Mr Letsis, that he and other reformers in the party still called themselves communists. However, he said there were no longer differences of principle between social democrats and communists.

"Some parts of the programme are no different from a social democratic one," he said. "There is nothing wrong with that. I don't think we have to prolong the split in the working class movement of 1917."

Mr Letsis thought Mr Gorbachev's chances of being elected Soviet president were small under today's conditions in the party and in the economy. "If the candidate for the presidency is from the communist party, we must show people it is another kind of party from what it was. We must get rid of the hardliners. The way he is working on the programme shows he means to do that."

He said that Mr Gorbachev retained control of the policy-making process but did not control the party congress nor the apparatus of full-time officials. "He wants to define the members as those who adhere to the new party programme - those who can't, can leave."

## CSCE does its best to rise to the occasion

A MEETING of the 35-member Conference on Security and Co-operation in Europe today in Prague at the behest of the European Community which is attempting to gain greater international support for its efforts to implement a lasting ceasefire in Yugoslavia.

The meeting is part of the CSCE's crisis management, set up in Berlin on June 20. Under that mechanism, initially opposed by the Soviet Union, any member state which considers that an emergency has arisen as the result of "major disruptions endangering peace, security or stability", or a violation of the principles of the Helsinki agreement, may first seek clarification from the state or states involved.

However, any decisions or solutions under the emergency procedure cannot be imposed. Furthermore, reaching substantial agreement within the forum of the CSCE is complicated because it works on the basis of consensus. "Decisions can be watered down in order to meet all objections. But time is running out," an Austrian official said.

Today's meeting, represented by

Judy Dempsey previews today's meeting in Prague and what the participants would like to achieve

ambassadors to the CSCE, and chaired by Germany, which currently holds the chair of the organisation, will include all the countries of Europe, plus the US, Canada and the Soviet Union.

This is the first meeting of the CSCE since July 3, when an emergency session was convened in Prague in response to the intervention by the Yugoslav federal army into Slovenia on June 26.

Since then, more than 300 people have died in fighting. Much of the fighting has taken place between Serbs and Croats in Croatia.

Yesterday, western diplomats were keen to stress the political as well as the symbolic importance of the CSCE meeting. "We want to send out clear

signals to Yugoslavia's political leaders, that the EC and the international community will exert as much pressure as possible to implement a ceasefire," a spokesman for Britain's Foreign Office said yesterday. He hoped that conditions for sending civilian monitors to Yugoslavia would be endorsed by the CSCE. "In this way, we will demonstrate that we are not walking away from the crisis."

Although there will no formal agenda, foreign ministry officials from Austria are hoping that the discussions in Prague will include ways in which to set up constitutional negotiations aimed at discussing the future of Yugoslavia's internal borders.

"Of course, we will insist that the leaders in Yugoslavia must commit themselves not to use force to change the country's internal borders," an Austrian official yesterday said.

The details had yet to be worked out. But if all the sides in the conflict in Yugoslavia agreed, the CSCE should be prepared to send foreign, legal experts to assist them in these negotiations, he said.

He added: "Yugoslav leaders now talk about a constitutional conference. But nobody can agree how to arrange it. There are objections raised when such a proposal is mooted by the eight-man collective state presidency. Then it gets passed to the presidents of the six republics. It goes round and round in the vicious circle. It is really time for the international community to really think about setting it up."

British and Austrian officials yesterday warned against making Slovenia's and Croatia's declaration of independence a priority at today's meeting. This is not the time or place to discuss this, a senior Austrian foreign policy expert said. "It would only muddy the waters. If there was a move to recognise Croatia, without taking into account the future status of the ethnic Serb community there, or the future status of that territory already gained by Serbia, the meeting would run into serious problems," he added.

The Soviet Union, and other western countries opposed recognition of independence of these two republics during last July's meeting.

## Kohl vows to be party candidate for chancellor in 1994 election

By David Goodhart in Bonn

MR Helmut Kohl, the German chancellor, last night brushed away any suspicion that he might be losing his appetite for office and confirmed he would remain the Christian Democrat (CDU) candidate for chancellor at the election in 1994.

Speaking on German television he indirectly rebuked his CDU general-secretary, Mr Volker Rübe, for pessimism about the state of the CDU and with typical equanimity said: "We have weaknesses and strengths and we must do something about the weaknesses."

Mr Kohl also stressed that the recent tax rise to cover some of the costs of unity would last only one year, as promised, despite scepticism from some economists about

whether one year will suffice. Separately Mr Manfred Carstens, state secretary in the Finance Ministry, reported that central government debt for 1991 would be only DM60bn (£20.4bn), DM6bn less than expected, mainly because local authorities in east Germany have not been able to spend as quickly as expected.

Mr Carstens also said that the German unity fund would be boosted by DM5bn a year between 1993 and 1994, to DM34bn in 1993, to DM26bn in 1994 and DM16bn in 1994.

On the recently revived debate about ending Germany's liberal asylum laws, Mr Kohl said that he favoured a constitutional change to prevent abuse of the law. However he rejected Social Democrat

suggestions that the automatic right of settlement in Germany should be removed from people of German descent in eastern Europe and the Soviet Union.

Although the next two or three years will be turbulent for Mr Kohl's government he continues to benefit from the relative weakness of the Social Democrats whose new chairman, Mr Björn Engholm, has yet to prove himself.

Yesterday Mr Johannes Rau, an SPD deputy leader, warned that the party faced the danger of following the Democrats in the US with their strength in the regions but apparent inability to elect a president. "There is now the enormous danger of a political division of labour along American lines," said Mr Rau.

## German banking secrecy laws 'to stay'

By Katherine Campbell in Frankfurt

GERMAN banking secrecy laws will not be altered to comply with the recent constitutional court ruling on taxation of investment income, according to the Finance Ministry.

Mr Manfred Carstens, the finance state secretary, said yesterday: "I do not think it will be necessary to upset the [banking secrecy] provisions."

In June the constitutional court ruled inequitable the current system whereby savers

are left to declare their investment income to the tax authorities voluntarily.

There had been discussion as to whether random checks of individual bank accounts should be allowed, or other attempts be made to lift the secrecy protecting banking customers.

The priority of the Finance Ministry, labouring to fund a historically high budget deficit, is to find a solution that does

not unsettle the capital markets and provoke a wave of capital flight. The court set a January 1993 deadline for introduction of the new measures.

Mr Theo Waigel, the finance minister, has already made clear that the government does not intend to repeat the last disastrous withholding tax - announced in October 1987 - which sparked massive capital flight, and sent the D-Mark

down 16 per cent against the dollar within four months.

Mr Carstens repeated earlier suggestions that a "hefty increase" in allowances for small savers was necessary. At the moment, allowances amount to just DM600 (£351) for a single person and DM1200 for married couples.

Under consideration, he said, was a flat rate tax on investments unrelated to individual income tax bands.

## Bonn admits it has rejected EFA system

THE German Defence Ministry yesterday confirmed that its representative on the committee managing the European fighter aircraft (EFA) had rejected the only bid for an integrated electronic warfare

package for the aircraft, writes Paul Abrahams. The bid made by Eurodass, a consortium consisting of Teledyne Systems of Germany, Marconi Defence Systems of the UK, Elettronica

of Italy, and the Spanish groups Inisel and Ensa, was too expensive, the ministry said. It would be looking at other, less sophisticated, systems instead.

German defence spending has come under budgetary pressure following unification. However, the ministry said the government remained committed to developing the EFA, a \$40bn project backed by Germany, Britain, Spain and Italy.

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## WORLD TRADE NEWS

## Norway to ease rules on high-tech exports

By Karen Fosli in Oslo

NORWAY, a member of Nato, said yesterday it would ease Cocom rules restricting sales of high-tech western goods to the non-Nato countries Austria, Finland, Ireland, Sweden and Switzerland.

Mr Bjoern Blokhuis, a spokesman for the Foreign Ministry, said the move - which will take effect at the beginning of September - was in accordance with a new Cocom products list to be published next month.

This will also lift restrictions on certain strategic and non-strategic high-tech goods which will be granted export allowances.

Cocom, the Paris-based Co-ordinating Committee for Multilateral Export Controls, was established in 1949 to block the export to the Soviet Union and its communist allies of western high-tech products which could be used during war.

It consists of the members of Nato minus Iceland plus Japan and Australia.

Norway earlier was embroiled in a case in which exports were in violation of Cocom regulations.

Kongsberg Vapenfabrikk, the state-owned arms maker, which has since been dismantled, in 1987 collaborated with Toshiba of Japan to sell advanced electronic equipment to Leningrad shipyards.

This enabled the shipyards to produce silent submarine propellers, making the vessels difficult for western radar to be.

The five neutral countries which Norway named yesterday have been subject to export restrictions for goods which could be used for military purposes.

These sales had to be individually approved by Norwegian authorities.

The Foreign Ministry said that these countries had implemented effective export control routines for high-tech products and that it had participated in negotiations with Cocom to give these countries a new export status.

From September 1, Norway will give general export licences valid for two years for an unlimited number of strategic and non-strategic products to the five countries.

"In the wake of détente between east and west it was natural to look at trade relations with those countries standing close to us", Bjoern Blokhuis, Norwegian Foreign Ministry.

This was in violation of Cocom regulations and strained relations between Norway and the US for more than a year.

There was also the threat of a block on exports by Norway to the US military, a main market.

Norway has since tightened penalties for illegal Cocom exports and the maximum fine for violations was increased to a five-year jail sentence.

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"In the wake of détente between east and west it was natural to look at trade relations with those countries standing close to us", Mr Blokhuis said. He added that this was a way of reducing bureaucracy and easing company planning.

In the first quarter of 1990, Norway granted 2,972 Cocom-related export licences.

Of the total, 193 were for the five countries. By comparison, in the first quarter of 1991, 3,075 licences were granted.

## Australia protests to EC on wheat subsidies

By Kevin Brown in Sydney

AUSTRALIA yesterday called in the ambassadors of the 12 European Community countries to protest against the EC's "indiscriminate" use of export subsidies for wheat.

The move was part of a campaign by government ministers to deflect growing public anger against US sales of subsidised wheat into Australian markets in Asia and the Middle East.

Mr Bob Hawke, the Prime Minister, said he regretted the US action, but urged Australian farmers not to blame Washington for using its export subsidies programme to

try to force concessions from the EC.

Mr Hawke said the US had stood "side by side" with Australia during last year's failed negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), when the EC rejected demands for swinging reductions in export subsidies on farm products.

It would not be very sensible in terms of the interests of Australian farmers, or of Australia, to do anything which would fracture that united position with the US in trying

to make the Uruguay Round work," Mr Hawke said.

The government has been increasingly concerned recently by the growing demands from farmers' organisations and anti-American groups for the closure of US military bases in Australia in retaliation for subsidised grain sales.

Australian irritation with the US surfaced at a meeting of the Foreign Ministers, Mr Richard Solomon, US assistant secretary of state for East Asia and the Pacific.

Mr Solomon said he and Senator Evans had agreed that the EC subsidy regime was the root cause of the wheat problem, but admitted the Australian side had described the US sales as a "toxic issue" between the two countries.

Australia has protested to the US about several sales of subsidised wheat to what it regards as its traditional markets in China, Kuwait and Yemen.

The Yemeni sale took place in spite of a US promise to avoid disrupting traditional Australian markets.



Bob Hawke: US "side by side" with Australia

## Gatt negotiators closer on cut in farm subsidies

By William Duilforce in Geneva

TRADE negotiators succeeded in clarifying ideas on how to reduce government support for agriculture last month, according to a note circulated by Mr Arthur Dunkel, director general of the General Agreement on Tariffs and Trade (GATT) to participants in the Uruguay Round trade talks.

But, the note implicitly recognises, only speedy decisions by European and US political leaders after the summer recess can resolve the deadlock over the reform of world farm trade which threatens to bring about the demise of the five-year effort to liberalise international trade.

In his note, based on the outcome of the talks in July, Mr Dunkel elaborates

on the options for farm reform which he detailed in June. He emphasises the options are presented "without prejudice to participants' positions".

Governments have agreed that aid must be reduced in three areas: domestic farm supports, border protection and export subsidies.

Last month negotiators came closer to agreeing on which types of domestic support, such as direct payments to producers and governmental services, do not distort trade and need not be cut. Two basic criteria are suggested:

the support must come from a publicly-funded government programme not involving transfers from consumers

the support must not boost the prices paid to producers.

An illustrative list of government services which can be excluded is taking shape. They include research and training programmes; pest and disease control; extension, inspection, marketing and promotional services; and support for infrastructure, provided it goes to expanding capital works and not to providing on-farm facilities.

Negotiators earlier failed to agree on the definition of an export subsidy. Mr Dunkel's note suggests criteria covering any form of subsidy resulting in export sales at prices lower than those charged to buyers in domestic markets.

The note includes a list of 12 export

subsidy practices which could be curbed. Among them are exports of publicly-owned stocks sold at less than their acquisition value, unless they are bona fide food aid deals. Government-backed export credits provided on less than fully commercial terms are listed.

During July, negotiators worked out in greater detail how non-tariff border restrictions, such as import quotas, variable import levies and voluntary export restraints, should be converted into customs duties and then reduced. But they are still far from agreeing how, when calculating the tariff equivalents, adjustments should be made for current differences between domestic and world prices.

## Honda plans more European dealers

By Kevin Done, Motor Industry Correspondent

HONDA, the Japanese car maker, is planning to increase its European dealer network to around 2,000 by the mid-1990s from nearly 1,500 at present, the company said yesterday.

Over the same period it is aiming to increase its European car sales to about \$50,000 from the 160,000 achieved last year.

Honda accounted for around 12 per cent of western European new car sales in 1990, but this is expected to increase as its expands its local European production base in the UK.

The Honda announcement follows last week's agreement between the European Community and Japan on trade in cars after the establishment of the single European market from the end of 1992.

Japanese car sales have hitherto been strictly limited in Italy, France, Spain and Portugal, but these markets will gradually be opened to increased Japanese sales after 1992.

Japanese car makers will need to expand their distribution networks in these countries in the 1990s to cope with their increasing volume of car production in Europe.

Honda is due to begin production at its first European car plant at Swindon, Wiltshire, in the UK in late-1992

with output rising to more than 100,000 cars a year by 1995.

Around half of the output of the Swindon plant will be sold under the Honda badge, with the remainder being marketed by Rover, the UK car maker.

Honda holds a 20 per cent equity stake in the Rover vehicle operations and Honda cars are already being built by Rover at its Longbridge, Birmingham, assembly plant.

Output of the Honda Concordo by Rover, which is 80 per cent owned by British Aerospace, will rise to 40,000 this year from 26,500 in 1990, and will remain at that level until 1995, Honda said yesterday in Tokyo.

Exports of Honda cars from Japan to Europe would not be increased and would total around 150,000 in 1995 compared with 151,200 in 1990.

Honda will increase car exports from North America to Europe however.

It started shipping US-made Honda Accord estate cars to Europe earlier this year and plans to boost exports of US-built estate cars to Europe to 10,000 a year by 1995 from an estimated 5,000 this year.

Honda said that it hoped to increase European car sales to 300,000 cars a year in the second half of the 1990s.

## S Korea sees rise in orders from Mideast

By John Ridding in Seoul

CONTINUED strong demand from the Middle East has prompted a steady increase in overseas orders for South Korean construction contractors so far this year, according to the Ministry of Construction.

Figures released by the ministry showed that Korean construction companies received 39 orders worth \$1.11bn (£645m) in the first seven months, an increase of 27 per cent over the same period last year.

The ministry forecast that demand would stay strong and estimated that by the end of the year total new overseas contracts would amount to \$4.2bn.

Construction orders in the period continued to be dominated by the Middle East. Korean contractors won orders worth \$202.3m from Saudi Arabia and \$162.3m from Libya.

But the first seven months also saw a sharp increase in orders from South-east Asia. Indonesia placed contracts worth \$173.4m with Korean companies, while the Philippines placed orders worth \$66.8m.

"This diversification of business is to be welcomed," said a spokesman for Hyundai Construction, one of South Korea's largest construction companies.

He added, however, that the Middle East would remain the largest market for Korean construction companies.

Korean construction companies are negotiating 15 overseas contracts worth a combined total of \$3.01bn. These include a thermal power plant in Libya, an oil refinery in Malaysia, a petrochemical complex in Iran and an extension of the King Khaled airport in Saudi Arabia.

## Boeing in Japan talks to develop 'super jumbo'

BOEING of the US has told three of Japan's leading heavy-machinery makers it would like to work with them on the development of a "super jumbo" jetliner and supersonic transport, Fuji Heavy Industries said yesterday. Agencies report from Tokyo.

A spokesman said no concrete agreement was reached in last month's meeting between Boeing, Fuji Heavy Industries, Mitsubishi Heavy Industries and Kawasaki Heavy Industries.

The super jumbo is expected to offer 800 seats on international flights and up to 800 seats on domestic flights. The aircraft's development cost is estimated at \$500bn (£3.2bn) to \$1,000bn.

## Venezuela buys eight tankers from Hyundai

HYUNDAI Heavy Industries, South Korea's largest shipbuilder, yesterday signed a \$500m (£292m) contract with PDVSA Marina, a subsidiary of Venezuela's national oil company, PDVSA, for eight 96,000 dwt tanker oil tankers. Writes Joe Mann in Caracas.

This order forms the first part of an expansion plan announced earlier this week by PDVSA to invest \$1.3bn in acquiring 22 new tankers.

The tanker deal will be fully financed by Mitsubishi, according to executives of PDVSA Marina, a subsidiary of PDVSA.

Hyundai is expected to deliver the first tanker by the end of 1993, with additional tankers completed every six months.



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## INTERNATIONAL NEWS

## Britain accuses Israel over new settlement

By Victor Mallet in Jerusalem and Roger Matthews in London

BRITAIN accused Israel yesterday of damaging Middle East peace prospects by building more settlements in the occupied Arab territories.

In a toughly worded statement the Foreign Office said: "We are deeply concerned by reports that yet another Israeli settlement has been opened in the occupied territories. This is illegal and provocative."

The UK complaint is just the latest in the long list of appeals to Israel over the past 15 years to halt its programme of settling more people on the land occupied during the 1967 war.

Israel has consistently ignored all such pleas and has instead built homes for close to 100,000 people in the territories.

The British statement added: "Those responsible for continuing this activity can be in no doubt of the damage they are causing to prospects for peace in the region."

Hopes for negotiations have risen sharply in the past few weeks as Syria agreed to attend a peace conference and Israel also accepted, provided agreement was reached on who represented the Palestinians.

The trigger for the British protest came when 10 Jewish families were moved into mobile homes at Eshkolot, two miles east of Israel's pre-1967 borders and nine miles from the West Bank town of Hebron.

The settlement at Eshkolot, previously a military outpost, is one of 33 new sites which were originally approved before the 1984 elections. Half



Sharon: backed expansion

have been established, but about 10 have yet to be handed over to civilian settlers.

Mr Ariel Sharon, the hard-line Israeli housing minister, has encouraged the rapid expansion of many of the 150 or so existing Jewish settlements.

Gush Etzion, the religious settlers' movement, is pressing the defence ministry to convert a further two army posts into settlements immediately. Members of the coalition government insist that the settlements are not related to the peace process, although the US administration and Israel's Arab neighbours regard them as provocative.

A spokesman for Mr Moshe Arens, Israel's Defence Minister, who gave final approval for the Eshkolot move, stressed that the decision was not timed to hinder peace efforts.

## Iraq giving IAEA only 'partial answers'

THE HEAD of a United Nations team seeking evidence of a secret nuclear weapons programme said yesterday Iraq was still providing only partial answers to their questions. Reuter reports from Baghdad.

Another UN team ended an inspection of Iraq's germ warfare capability, but its head said further inspections would follow.

Mr David Kay, leader of the International Atomic Energy Agency (IAEA) nuclear inspectors team, said that one of the problems facing his investigation was that Iraq had a "history of deception".

"It's still a piecemeal process," he said. "It's answers to questions, questions being presented, answers that are partial, generally going back and forth."

Mr Kay, who led an earlier team which flushed out evidence of a secret uranium enrichment programme, said this approach made it inevitable that further teams would visit Iraq.

Under the terms of the Gulf war ceasefire, Baghdad must declare and scrap its weapons of mass destruction. The US has threatened to attack targets in Iraq if it does not come clean on all its military secrets.

Mr Kay said that Iraq, which admitted having processed 2.25 grams of plutonium in May, had declared a further three grams after his latest team, the fourth of its kind, arrived on July 27.

The team gathering evidence on Iraq's germ warfare programme leaves today. Iraq admitted hours after the team arrived on Friday that it had conducted germ warfare research but said it had stopped the programme in the second half of 1980 - months before the start of the Gulf war.

The IAEA in Vienna said yesterday that Iraq's secret attempts to produce plutonium breached a nuclear pact signed by Baghdad.

The agency said Iraq violated a safeguards agreement in the Nuclear Non-Proliferation Treaty designed to block a spread of atomic weapons.

But an IAEA spokesman said the amounts of plutonium known to have been produced in Iraq were so small there was no danger they could be used to make a nuclear bomb.

The spokesman said IAEA inspectors would not normally look for such small amounts of plutonium, as such in-depth investigations were too costly and time-consuming.

## Dangerously exposed in the peace game

Tony Walker on PLO leader Yassir Arafat's rearguard action in the Middle East

MR YASSIR Arafat, the chairman of the Palestine Liberation Organisation, has never been one to sit still for long. His response to adversity is to travel, to move, to consult.

In the past few days, Mr Arafat has been back on the road again, as he strives desperately to avoid being left out in the cold in this latest round of Middle East peacemaking.

In quick succession he visited Morocco, Tunisia and Algeria, just hours before Mr James Baker, the US secretary of state, arrived in each of those places as part of his latest peace shuttle.

These are deeply worrying moments for Mr Arafat who has devoted his long career to trying to ensure that the PLO is the "sole legitimate representative" of the Palestinians.

Now, after all his efforts and endless manoeuvring, he finds that his organisation is in danger of being consigned to the shadows and barely consulted about steps towards a peace summit which is meant to focus on the Palestine question.

While the PLO leader may welcome the fresh attention that is being focused on him and his organisation, he cannot be at all sanguine about his position. Put bluntly, his capacity to influence events is limited, and he knows it.

It must be galling for Mr Arafat to observe his old adversary President Hafez al-Assad of Syria receiving plaudits in the west for his agreement to attend a peace summit with Mr Yitzhak Shamir, the Israeli leader, who continues to insist that he will not yield "one inch" of territory.

Not only will Mr Arafat be absent from such a gathering

— something the Arab world appears to have accepted without demur — but there is even a question as to whether he will be allowed to nominate those who might represent the Palestinians in a joint Jordanian-Palestinian delegation.

All this is a far cry from the heady moments of late 1988 when Mr Arafat, in the glare of international publicity, announced that he was recognising Israel as a prelude to being accepted, he hoped, as a full partner in a US-sponsored peace effort.

The PLO leader's expectations where the US was concerned were always exaggerated. His belief in Washington's ability to deliver Israel to a peace gathering at which the PLO would also be represented were wildly unrealistic.

Mr Arafat's support for President Saddam Hussein in the Gulf crisis has made it easier for the Americans to do what they always wanted to do, which was to deal the PLO out of the game, at least in the initial stages of any process.

Since breaking a faltering dialogue with the PLO in June 1990, the US has not felt obliged to resume contacts, and Mr Baker has been devoting himself to the task of forcing the organisation over further into the fringes.

The question for Mr Arafat is whether he can salvage some advantage from a process that now appears to be running ahead of him at a rapid rate. His latest equivocal statements neatly sum up the Palestinian dilemma.

"We have said 'Yes' to a peace conference and we do not pose conditions... but we are not bending to Israeli conditions," Mr Arafat said in Tunis this week.

Adding to pressure on the



PLO is the fact that Mr Shamir, by his conditional 'Yes' to participation, has avoided for the time being the odium of being held responsible for failure.

Israel has seized the initiative and Mr Arafat has been left dangerously exposed.

Mr Arafat knows that for the sake of his own credibility and that of his organisation he must try to find a way to improve his very unpromising circumstances, hence his demand for a written undertaking from the Americans that

UN resolutions requiring Israeli withdrawal from Arab land be put firmly on the table.

The PLO leader is talking about convening a meeting of the Palestine National Council, the Palestinians' supreme policy-making body, in Algiers next month to seek endorsement for whatever course of action he chooses.

But he knows there are risks. PLO militants may seize the moment.

The mood among PNC members is not necessarily in favour of compromise. Mr Arafat may well end up being damned if he says 'Yes' and damned if he says 'No'.

fat may well end up with hard-line resolutions that limit his room for manoeuvre.

Palestinian disorder is now being reflected in conflicting statements being issued by PLO spokesmen.

The moderates believe that having in effect abandoned armed struggle after the defeat in Lebanon in 1982 and having embraced a peace strategy in the absence of any realistic alternative, a conference offers the best glimmer of hope for the Palestinians under occupation. Hardliners brand this approach a sell-out.

Mr Arafat must fear that his exclusion from the process will mark something of a death-knell for his own leadership and for the PLO itself, hence his hectic activity of recent days in an attempt to shore up what little support he has left among Arab states.

Much of the rest of the Arab world likely to be experiencing little concern about Mr Arafat's discomfort, and in Baghdad his one-time ally President Saddam Hussein has other preoccupations.

In a long and turbulent career in which he has survived more than his share of crises, Mr Arafat's well-honed survival skills are to be put to yet another test.

If he says 'No' to Palestinian participation then he is in danger of being left out in the cold completely. If he says 'Yes' meekly to the US plan without anything in return he risks the wrath of PLO hardliners.

The PLO leader may well end up being damned if he says 'Yes' and damned if he says 'No'.

His is not an enviable position, but equally, Mr Baker would be foolish to imagine that peace in the Middle East can be achieved without Palestinian co-operation.

## Fighting flares up in Western Sahara

FIGHTING between Morocco and the Polisario Front has flared in the Western Sahara after a lull of almost two years and both sides say it could jeopardise United Nations plans for a September 6 ceasefire and a referendum in January. Reuter reports from Algiers.

Polisario Front guerrillas say Moroccan aircraft have raided one of their positions twice in two days at Fikariti, a waterhole 15 km (10 miles) from the Mauritanian border.

Nabat did not confirm the air raids but said its forces were making sweeps across non-military land.

A western diplomatic source

in Rabat said Polisario had been moving forces from the Tindouf area in Algeria into the vast desert area.

The war for the Western Sahara, most of which is now under Moroccan control, has been raging since 1975, but the latest fighting is the first reported since November 1989. Under the UN plan, accepted by both sides in June, Saharans would vote in January either for independence or integration with Morocco. Some 2,800 troops, police and civilians are to oversee the peace plan. The first elements of the force, set up by 34 countries, are due to arrive next week.

The spokesman said IAEA inspectors would not normally look for such small amounts of plutonium, as such in-depth investigations were too costly and time-consuming.

## Mandela says talks could halt without interim government

MR NELSON Mandela, the leader of the African National Congress, returned from an overseas tour yesterday and immediately said he would put pressure on President F.W. de Klerk to accept his proposals for an interim government.

Mr Mandela told a news conference that peace and power-sharing talks could grind to a halt if Mr de Klerk did not go along with ANC plans for a transition to non-racial democracy.

"What we want is a transfer of power from this [white] government to an interim government. If it does not do so, it

will be very difficult to move forward," Mr Mandela said. "We are going to put tremendous pressure on the government to adopt our approach."

Speaking shortly after his return from Europe and Latin America, the 72-year-old leader said recent disclosures of a government slush fund made the installation of an interim government an urgent necessity.

"The government must agree to a mechanism which will ensure that we will not have a similar scandal... and the only mechanism which will give this assurance is the installation of an interim government," he said.

Mr De Klerk's reformist administration has admitted secretly giving the ANC's chief anti-apartheid rival, the Zulu-based Inkatha Freedom Party, and its affiliate, more than R1.5m (£300,000) to promote their activities.

Mr de Klerk, a man of integrity in the light of the scandal, Mr Mandela said the ANC's opinion may have been exaggerated.

"However, I appreciate that the president is dealing with elements in his government and security forces who want to maintain the status quo," he said.

## Twelve more stalwarts quit Bhutto for coalition

ANOTHER dozen party stalwarts deserted former Prime Minister Benazir Bhutto yesterday to join the governing coalition, the state-run news agency said, AP reports from Islamabad.

But Ms Bhutto's former law minister, Mr Iftikhar Gilani, claimed the defections were part of a "campaign of terror" being waged against her Pakistan People's party.

Last week 15 law-makers deserted Ms Bhutto's left-leaning party and pledged their loyalty to the conservative Islamic Democratic Alliance. Ms Bhutto claims at least 5,000 party workers in her home province of Sindh have been arrested and imprisoned.

Three months after her government was dismissed last August, Ms Bhutto was overwhelmingly defeated in national and provincial elections and her party was relegated to a weak and ineffective opposition. She has accused her opponents of massive vote-rigging, a charge dismissed by most international observers.

"The object since August 4 has been to politically annihilate us," said Mr Gilani. Ms Bhutto held a token hunger strike last Saturday to protest at what she labelled Pakistan's civilian military rule. She has threatened to launch huge demonstrations if the alleged harassment of her loyalists does not stop.

## UK-Vietnam 'progress' on boat people

By William Dullforce in Geneva

BRITISH-Vietnamese talks on the return of Vietnamese boat people in Hong Kong to internationally managed centres in Vietnam are "making good progress", a spokesman for the British mission here said yesterday.

Some outstanding points, on which he declined to elaborate, remained to be settled after the seventh meeting on the issue between Mr Martin Morland, British ambassador, Mr Nguyen Luong, his Vietnamese counterpart, and senior officials from the United High Commission for Refugees and the International Organisation for Migration (IOM). Another meeting will be held early next week.

The Vietnamese are understood to be making reservations about loss of sovereignty, if they cede control of part of their territory.

The proposal to set up centres, probably under IOM control, in Vietnam to receive Vietnamese returning from Hong Kong and south-east Asia aims at halting the exodus of refugees in small boats and solving the problem of how to deal with so-called economic migrants who have not faced political persecution in their home country.

More than 61,000 boat people, of which fewer than 5,000 have been accepted as genuine refugees, are at present languishing in overcrowded camps in Hong Kong and the rate of arrivals has increased again this year.

An outcry arose in the US and other countries when in December 1989 the Hong Kong government repatriated to Hanoi against their will an aircraft full of people declared to be economic migrants.

Vietnam agreed to discontinue establishment of internationally managed centres on its soil after the US had indicated during bilateral US-Vietnam talks in Washington earlier this year it would not oppose the project, provided the boat people returned voluntarily and were not forced to leave the centres for their homes.



A Beijing cyclist covers her mouth yesterday as she passes a workcrew spraying noxious and possibly dangerous insecticide in the city centre. The daily spraying is in an effort to combat a seasonal insect hatch.

## Taiwan set for its first private sector oil refinery

By Peter Wickenden in Taipei

TAIWAN is to get its sixth naphtha-cracking plant and its first private sector oil refinery in a \$4.8bn investment announced yesterday by the Formosa Plastics Group (FPG).

First proposed nearly five years ago, the project is intended to relieve Taiwan's worsening shortage of home-produced plastics and petrochemical feedstocks.

It has been delayed by soaring land costs at one chosen site and by opposition from environmental groups at several others.

Construction should begin in about eight months at Shaliao, a village near the southern port of Kaohsiung.

When it is finished in three years, the refinery will produce

9m tonnes of naphtha a year. The naphtha cracker will be able to turn out 350,000 tonnes of ethylene and 250,000 tonnes of propylene yearly for supply to 36 downstream plastics and petrochemicals plants included in the project.

Taiwan's total annual ethylene capacity is now around 845,000 tonnes, well short of demand of 1.3m tonnes. The gap is made up by imports, which last year grew by 140 per cent.

FPG's plan for a \$7bn petrochemicals complex at Xiamen, on the Chinese coast opposite Taiwan, is still being considered. However, the Taiwanese government last year called a halt to the project for the time being.

## Hong Kong moves to curb home price speculation

By Angus Foster in Hong Kong

HONG KONG yesterday moved to reduce speculative buying of new housing developments in a bid to dampen the colony's overheating property market.

The government is to increase the minimum initial deposit on flats to 5 per cent from 1.5 per cent of the total price. The penalty for failing to go ahead with a purchase doubles to 3 per cent. A government spokesman said the deposit rate could rise further to 10 per cent if speculation continues.

A number of other measures, including a lottery system to select purchasers are being introduced to stop speculators driving prices up. Some residential property prices have risen by 30 per cent this year.

mainly because of high demand and optimism following last month's agreement between Britain and China to build a new Hong Kong airport.

Hong Kong's leading banks, which often finance 90 per cent of home buyers' mortgages, have worried that prices have been rising too fast.

Shares in property development companies dipped on Tuesday before the announcement but recovered yesterday when investors saw the measures were not as severe as feared. Indeed property prices may not be severely affected because demand for flats, especially in the small to medium-sized ones, is increasing while supply is at a five-year low.

## Challenger to Zambian presidency withdraws two days before vote

A YOUNG businessman who wanted to wrest Zambia's presidency from veteran ruler Mr Kenneth Kaunda withdrew his challenge yesterday, just two days before a crucial vote on the issue by the ruling party.

Reuter reports from Kabwe. "In the interest of party unity, I have decided I will not be contesting the party candidacy," Mr Enoch Kavindile told a party congress.

To cheers and yells of "KK forever" from 6,000 delegates, Mr Kavindile hugged President Kaunda.

On Friday, the UNIP (United National Independence Party)

votes to choose its presidential candidate for multi-party elections due by October. Mr Kaunda, in power since 1964, is now the sole nominee.

Mr Kavindile, 58, welcomed Mr Kaunda's decision to step down. "This is a demonstration of good clean politics. This will ensure continued unity within our party," he said.

Mr Kavindile, at 42 UNIP's youngest central committee member, said last month he would stand for president to save the ailing party from defeat at the multi-party elections.

Mr Kaunda, under pressure

from a powerful new opposition movement as well as from foreign trade and aid partners, ended 17 years of one-party rule last December by agreeing to multi-party elections.

Zambia's slide into penury over the last decade, coupled with Kaunda's loss of personal popularity among the people, have made UNIP defeat at the elections likely, diplomats say. Kaunda has not yet set a date for the poll.

Mr Kavindile had little visible support among UNIP members at the congress, who continuously sang songs of praise for Mr Kaunda.

## Inflation rate in Australia falls to 3.4%

By Kevin Brown

AUSTRALIA'S annualised rate of inflation fell by 1.5 percentage points to 3.4 per cent in the three months to June, the lowest since March 1970.

The unexpectedly large fall in the annual rate followed a smaller than expected rise of 0.1 per cent in the quarterly Consumer Price Index, largely caused by lower petrol prices and heavily discounted air fares.

The reduction was welcomed by Mr Bernie Fraser, governor of the Reserve Bank, and Mr John Kerin, the treasurer (finance minister).

However, Mr Kerin moved quickly to dampen hopes of a rapid easing of monetary policy.

"Today's CPI result is most welcome, but it does not by itself justify a cut in interest rates," Mr Kerin said.

The CPI figures confirm the trend of slower price rises in Australia and put the economy on course for inflation of less than 3 per cent by the end of the year.

## Canberra gets tough on media ownership

By Kevin Brown in Sydney

AUSTRALIA'S Labor government yesterday said it planned tougher curbs on cross-ownership of media assets to prevent indirect control through "associates" of proprietors.

The announcement follows a bid for the Fairfax newspaper group by Tourang, a consortium led by Mr Kerry Packer, owner of Australia's Channel Nine television network, and Mr Conrad Black, the Canadian chairman of the London Daily Telegraph group.

Fairfax, which publishes the Sydney Morning Herald, The (Melbourne) Age and the Australian Financial Review, was put into receivership in December with debts of \$81.7bn (£77m) after defaulting on debts of \$41.1bn. The Tourang bid values the company at between \$81.1bn and \$81.2bn.

Mr Kim Beazley, the communications minister, said proposals to tighten the law would go to the federal cabinet "immediately," followed by legislation early in the next session of parliament, which begins this month.

The legislation will increase the powers of the Broadcasting Tribunal to investigate media takeovers by inserting a precise definition of "associates" into the Broadcasting Act.

The act bars owners of television or radio stations from holding more than 15 per cent in leading newspapers circulating in the same market. However, it does not specifically prevent indirect control through associates.

Mr Beazley said the legislation was not aimed specifically at Tourang, which also faces problems in persuading the government to allow a total foreign shareholding in Fairfax of 30 per cent, of which Hollinger, Mr Black's Canadian-based company, would take two-thirds. The balance would be acquired by Hollman and Friedman, the US investment bank.

Aggregate foreign shareholdings of more than 15 per cent in any Australian company require government approval.

Several other interested bidders are circling the Fairfax group, including Jamison Equity, an investment company 32.7 per cent owned by the London-based AFP Group and Independent Newspapers, chaired by Mr Tony O'Reilly, the Irish chairman of Ireland's US-based food group, Pearsons. The UK corporation which publishes the Financial Times has also expressed an interest in acquiring the Australian Financial Review.



## AMERICAN NEWS

## Regional economic assessment offers a gloomy picture

## Fed report sees uneven and slow recovery

By Michael Prowse in Washington

THE US economy is improving but at a slow and uneven pace, according to the Federal Reserve's latest Beige Book assessment of regional economic trends.

Manufacturers reported a gradual strengthening of demand in most regions, but the recovery was not uniform. Retail sales were flat or edging up in about half the 12 Federal Reserve districts. The spring pick-up in home sales was seen as losing momentum in many areas.

This gloomy picture of an economy at best inching its way out of recession provides further justification for the Fed's decision on Tuesday to signal a quarter-point cut in short-term interest rates to 5 1/2 per cent, the lowest level for more than a decade. The cut in the federal funds rate was the first easing of monetary policy since the end of April.

Yesterday's report, prepared by the Federal Reserve Bank of Boston, covers the period to July 29 and will be discussed by governors and regional presidents on August 20, when the Federal Open Market Committee meets to assess monetary policy.

The report says a majority of manufacturers expect a gradual improvement in orders and production over the next three to six months. However, Cleveland, Atlanta and San Francisco described business conditions as mixed. Dallas said

orders had softened recently.

Producers of consumer durables generally believed the trough was behind them while producers of capital goods and construction equipment said the bottom was close. However, respondents from the steel and car industries and from Boston itself remained "very cautious."

Retail sales were flat or slightly higher in about half the Fed districts. But New York, Cleveland and Richmond reported declines. Retailers east of the Mississippi said weather fluctuations had distorted trends. The consensus outlook, however, was for a modest recovery in retail sales later this year.

Service sectors were generally seen as weak. Banks reported slack demand even from creditworthy borrowers. Housing markets appeared to have lost momentum since spring in half of the districts.

Cost-cutting by service industries and state and local governments had affected employment in many regions. Business conditions in the Boston Fed's district - part of the depressed New England economy - were "mixed and uncertain."

Manufacturers' sales and orders were flat to down compared with last year, with declines ranging as high as 15 per cent.

More than half of respondents reported recent softness of incoming orders.

## Leap in Brazilian inflation

BRAZIL'S monthly inflation rate surged to 11.1 per cent in July, its highest level since March, according to figures yesterday from the Institutional Foundation of Economic Research, writes Victoria Griffith in São Paulo. The figure for June was 9.78 per cent. The government responded

by reimposing price controls on five food products whose prices had previously been freed. Another 10 products - including shampoo and tea - may also have price ceilings reimposed.

The private sector fears more price controls will cut into company profits this year.

## No rush to mount Democrat challenge to Bush

Candidates are not falling over one another to announce a run for president, writes Peter Riddell

IT IS a party nobody wants to attend. Senator Jay Rockefeller of West Virginia yesterday became the latest in an illustrious line to rule himself out as a Democratic presidential candidate in 1992.

Senator Rockefeller, a member of the oil and banking family, said there was too little time to run a successful campaign and to be ready for an administration that "meets my own high standards". His interest in running has been on-and-off so far this year and earlier in the summer he attracted considerable attention over a plan to extend health coverage.

He joins others once thought of as likely runners, such as Congressman Richard Gephardt, the House majority leader, and Senator Sam Nunn of Georgia, chairman of the armed services committee. Senator Lloyd Bentsen of Texas, the Democrats' vice-presidential candidate in 1988, has also said he is not interested.

The only declared candidate is former Senator Paul Tsongas from Massachusetts, though Senator Tom Harkin of Iowa, a prominent liberal, has been campaigning around the country and is expected to announce his candidacy on September 15.

A further rush of decisions is likely after the summer holidays. Governor



Paul Tsongas (left) is the only declared candidate, while Al Gore (centre) and Mario Cuomo are not ruling anything out



Bill Clinton of Arkansas has been consulting advisers about an announcement early next month, when Senator Al Gore of Tennessee is also planning to reach a decision. Both are moderate/conservative Democrats on many issues and Senator Gore was one of the few leaders of his party to endorse military action before the Gulf war.

Governor Douglas Wilder of Virginia, the sole prominent black candidate interested - with the Reverend Jesse Jackson currently on the side

lines - has commissioned a poll in the early primary state of New Hampshire and will also decide by next month.

Governor Mario Cuomo of New York, one of the most powerful speakers and campaigners in American politics, has remained his enigmatic self. He has said he is not interested, but has not ruled anything out.

The shortage of declared Democratic candidates is in marked contrast to the same stage four years ago

when half a dozen Democrats were formally in the race. The difference is largely explained by President George Bush's continuing high approval ratings in the polls and the widespread assumption that he will be nearly impossible to beat next year. However, Democratic strategists believe Mr Bush is vulnerable over his alleged lack of interest in domestic policy and over issues such as unemployment and health care.

After a preliminary discussion at

Camp David last Saturday, Mr Bush has given the go-ahead for a re-election and fund-raising organisation to be set up after the holidays.

Potential Democrat candidates have to make up their minds soon to raise sufficient money to fight an extensive primary campaign. An additional complication is the still unresolved debate in California about whether to shift its presidential primary from June to March. That primary could have a decisive impact on the contest, but the state's size and the need to campaign through expensive television advertisements favours a well-known and well-financed candidate, such as Governor Cuomo.

Senator Gore has done well in some polls and has the advantage of a strong foreign policy stand. Governor Clinton has impressed many party workers with his appearances around the country and Senator Harkin has the backing of the party's liberals.

Senator Governor Wilder is likely to have large support from the black community. At present, however, 1992 is a race many leading Democrats think it would be better to avoid - though at least three or four will soon have found the temptation too great to resist.

## US to tighten powers against takeovers by foreign groups

By Peter Riddell, US Editor, in Washington

NEARLY 10 months of uncertainty over White House powers to block foreign takeovers of US companies look set to end soon.

The Exon/Florio provisions for monitoring such acquisitions lapsed last October with the expiry of the Defence Production Act. But new legislation approved by Congress and now at the White House would make permanent the presidential power to review such deals and, if necessary, block them on national security grounds.

Since the powers expired, the Treasury has operated an informal monitoring system, encouraging companies to submit detailed proposals about a deal if they are uncertain of a potential national security problem.

However, the administration has lacked the legal power to block any transaction and has only had the implicit threat that, when the powers were

renewed, the White House would be able to use the provisions to order divestiture of any deal which threatened national security.

This retrospective power, together with uncertainty about whether the rules would be tightened, appears to have deterred some transactions.

Several measures have been put forward in Congress to strengthen presidential powers against foreign takeovers, notably by broadening the criteria for blocking a bid to cover economic security, as well as national security. These proposals have been strongly opposed by the Bush administration.

There are a record number of measures pending on Capitol Hill which would adversely affect foreign investors.

These range from restrictions on foreign ownership of US cable television systems to excluding foreign-controlled

companies from a liberalisation of anti-trust law on joint ventures.

Democratic Senator James Exon of Nebraska, one of the authors of the original provisions, said permanent authorisation was needed even more now, with US defence spending in decline. He said the measure "gives the president the power to assure that American industrial and technological strength is not lost to foreign takeovers, mergers and acquisitions".

The White House has only used its formal powers to block a deal in one case, although several transactions have been restricted to meet national security worries following consultations with the Treasury-led inter-agency group, known as the committee on foreign investment in the US.

Some deals may also have been dropped for fear they might be blocked.

## Prominent broadcaster dies in US

MR Harry Reasoner, a prominent American broadcaster, died at a Connecticut hospital on Tuesday of cardiopulmonary arrest, Reuter reports from New York.

Mr Reasoner, who was 68, co-hosted one of the most successful US television news shows, 60 Minutes. He had been in hospital since June 11, CBS News said in a statement.

The white-haired, craggy-faced journalist was a veteran CBS News reporter and former ABC Evening News broadcaster who won numerous journalism awards.

He won three Emmy awards, a George Foster Peabody Award for "outstanding contributions to television news" in 1967, and was honoured by the Overseas Press Club of America for best television documentary on foreign affairs for a report on Africa.

Mr Reasoner, the author of three books, is survived by his wife and seven children.

## Rift grows over Quebec hydro-electric scheme

By Bernard Simon in Toronto

SUPPORTERS and critics of Quebec's huge Great Whale hydro-electric scheme are hardening their positions as the issue escalates into one of North America's fiercest confrontations over the environment.

Mr Robert Bourassa, Quebec's premier, has attacked aboriginal groups who are fighting to block the C\$12bn (US\$bn) project, and is insisting that the project will benefit the province as a whole. For their part, chiefs from nine Cree communities on the southern tip of Hudson Bay, where the project will be located, have demanded wider consultation over the ecological impact of the scheme.

The chiefs, who are supported by US and Brazilian environmental groups, have been meeting this week to plot strategy.

Meanwhile, Mr David Dinkins, mayor of New York, is reportedly about to ask the

state's power authority, which would be Great Whale's biggest customer, to revise its contract with the supplier, Hydro-Quebec. The power authority has until November 30 to review the contract.

The project, centred on the Great Whale River, 600 miles north of Montreal, would supply 3,100MW of electricity after completion in 1998. Great Whale is part of a larger development plan for the area which would eventually be the world's biggest hydro-electric scheme, accounting for a quarter of North America's power from this source.

Construction work involves damming several rivers and flooding about 2,000 square miles of land. Native groups say the project will destroy their traditional way of life and threaten wildlife species.

The protests have already forced Hydro-Quebec to delay plans to start building 350 miles of access roads.



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## UK NEWS

## Baker under pressure over London prison escape

By Ivo Dawmay, Political Correspondent

MR KENNETH BAKER, the Home Secretary, yesterday rejected opposition Labour party demands for a public inquiry into last month's escape by two Irish Republican Army suspects from Brixton prison, London, as a growing political storm surrounded his personal responsibility for the break-out.

The call came from Mr Roy Hattersley, the opposition spokesman on home affairs, following press reports that Mr Reg Withers, the former Brixton governor, had privately told colleagues he was being made a scapegoat for mistakes at departmental level.

On Monday Mr Baker published a report into the escape which disclosed that prison service officials and Brixton prison had been tipped off about an escape plan in Febru-



Baker: rejected inquiry. But he argued that the mistakes had been operational and not a consequence of ministerial policy.

terday, the Labour deputy leader said the new allegations raised "crucial questions about the efficiency of the Home Office and your personal conduct".

Mr Hattersley's demand for the full publication of Judge Stephen Tumm's report, partially published last Monday, and a fresh inquiry conducted by an independent tribunal met a swift rejection, however.

Responding for Mr Baker, who is on holiday in France, a home office minister said the department had already made public all that could be "safely" revealed without compromising security.

She said a disciplinary inquiry was now under way along with a separate security

audit on the handling of category A high risk prisoners.

"With regard to statements allegedly made by the Governor, Mr Withers, contrary to suggestions in the press no specific request was made by the governor for the two prisoners to be moved from Brixton," he replied.

"Information about a possible escape was received at the prison and by officials in the prison department. This information was not passed to ministers or senior officials."

Earlier, the Home Office had issued a statement on behalf of Mr Withers denying that he made a written request that Mr Nessan Quinnivan and Mr Pearce McAuley, the two escaped IRA suspects, be removed to a prison with better security.

However, according to one

newspaper report yesterday, Mr Withers has told colleagues that he had "made a report to my superiors" that the two men should not be held in Brixton.

Mr Withers' removal from his post to take up pre-retirement leave prior to his sixtieth birthday in October has rallied the Prison Governors Association to his case.

Mr Harry Brett, the association's chairman, said yesterday that the governor had acted on a tip-off about an escape attempt received from within the prison, but had received no warnings from the Home Office itself.

Earlier the association argued that the escapes would not have taken place if ministers had acted more swiftly on plans to improve security at Brixton drawn up last year.



## Fire sets back opening of the London Underwriting Centre

By Richard Lapper

A SERIOUS FIRE has set back the opening of a new London insurance centre, pictured above, by at least six months.

The prospective offices of the London Underwriting Centre at No 3 Minster Court, near the Tower of London, were badly damaged by the fire which began early yesterday morning and lasted for approximately four hours.

The building is part of the Prudential's Minster Court development - the largest currently underway in the City of London.

The LUC is serviced by a management company formed by two dozen insurance companies, which has spent over £45m in fitting out the building

and has sublet space in it to over 60 others.

It was intended to open the centre for business in March next year.

Yesterday's fire, which spread quickly through the building's atrium, caused extensive damage to the interior and equipment, including a massive free standing block of escalators.

Damage is likely to exceed £10m although this amount could be much greater if the building's exterior is found to have been damaged.

According to Mr Victor Blake, the chairman of the LUC, the building was insured with a policy placed by brokers CT Bowring and Underwritten

by a group of companies led by Royal Insurance.

The concept behind the project is to allow brokers to visit a number of underwriters in only one building, rather than a number of disparate offices, improving levels of efficiency and helping London companies compete more effectively with the established Lloyd's insurance market.

Mr Blake said he believed the project would help London sustain its position at the centre of the international insurance industry.

He added that the fire would "undoubtedly" delay the centre's opening, possibly by more than a year, but insisted that the project would go ahead.

## DEFENCE

## Smiths awarded key US military contract

By Charles Leadbeater, Industrial Editor

SMITHS INDUSTRIES, the British aerospace and medical equipment group, yesterday significantly strengthened its position in the US aerospace industry by winning developments contracts from the US military which should lead to orders worth almost \$400m.

In the largest deal Smiths beat off competition from Lockheed Industries, the US aerospace group, to win the development contract to supply the US military with a new generation of aircraft gyroscopes.

The award to Smiths is a blow for Lockheed which has held a dominant position in military gyroscope manufacturing for many years.

Smiths has been awarded a \$13m contract to develop a new generation of gyroscopes to be retrofitted onto US military aircraft and a \$10m contract to develop advanced equipment for the US Navy aircraft.

The contracts are further evidence of Smiths' growing

## Short Brothers of Belfast cuts 250 jobs blaming sector recession

SHORT BROTHERS, the Belfast aircraft and missiles manufacturer, blamed the recession in the world aerospace industry for a decision yesterday to cut 250 jobs from its workforce.

Shorts was acquired by Bombardier, the Canadian transportation group, when it was privatised two years ago. It is Ulster's biggest private employer with a workforce of almost 9,000.

Strength in the US aerospace industry. In April it was awarded an avionics contract from Boeing, the civil aircraft manufacturer, which could be worth about \$700m over the next decade. Smiths is providing Boeing with an innovative flight management and information system which was originally developed for military aircraft.

The military contracts have been won by two of Smiths' US subsidiaries, which it acquired in 1987 to strengthen its position in the US market.

Smiths believes that despite declining military spending orders to upgrade aircraft through fitting advanced electronics should provide it with a good market in the next decade.

Its main plant at Grand Rapids in Michigan will develop and produce the gyroscopes, which show an aircraft's attitude and heading. The US military is replacing its mechanical gyroscopes with a new generation of electronic systems. The

A spokesman said the job losses had to be viewed in the context of growing staff levels adding "We are not immune from the recession in the industry around the world."

Under Bombardier's ownership employment has risen from 7,500 to its present level but the recession in the aerospace industry, coupled with cut-backs in customer programmes, has forced the company to trim the workforce.

Smiths' gyroscopes, which use an innovative fibre optic technology, will become standard products to be retrofitted to all US military aircraft from 1993. The alternative used the kind of laser technology employed in the highly sophisticated guidance systems in cruise missiles.

As well as orders from the US military for gyroscopes worth about \$300m between 1995 and 2005, Smiths estimates there is considerable export demand.

The company's New Jersey plant has won a separate \$18m development contract for equipment racks to carry airborne self protection equipment. Analysts estimate this could generate sales of more than \$30m in the ten years to 2005.

Trade unions called on the government yesterday to encourage defence manufacturing companies to diversify after publishing a survey showing nearly 36,000 job losses in the sector this year and last.

Mr Michael Smith, the report says that the 35,831 job losses amount to 10 per cent of employment in primary suppliers to the Ministry of Defence and more than 5 per cent of total private sector defence employment.

The list of companies which have made workers redundant includes British Aerospace, Vickers, Dowty, Rolls-Royce aerospace division, Marconi, GEC, Westland Helicopters and British Nuclear Fuels.

## Courage to cut 1,400 jobs in brewing

By Philip Rawstone

COURAGE, the UK's second-largest brewer, is to cut 1,400 jobs over the next 12 months as it integrates the brewing operations acquired from Grand Metropolitan in the £2.5bn pub-for-breweries deal earlier this year.

Most of the job losses - representing about a fifth of the workforce and foreseen in the group's submission to the Monopolies and Mergers Commission last year - will come from rationalising distribution, packaging, sales and administration.

The company will maintain production at all its breweries and will continue to produce the full range of beer brands formerly brewed by GrandMet.

Some 400 jobs will go from the closure of the former GrandMet packaging plant in west London, in June next year. At the same time, up to 150 jobs will be created in the expansion of canning and bottling facilities at the brewery in Reading, west of London.

Courage will reduce its distribution depots from 47 to 29 by mid 1992 with the loss of a further 300 jobs. The sales force will be cut by around 130; central and regional administrative staff will be reduced by 80, and technical services by 104. The bottling line at the brewery in Halifax, West Yorkshire, will also be closed with the loss of 54 jobs.

Regional operating teams - which will comprise sales, distribution and technical services - centred on Bristol; Macclesfield, south London; and Tadcaster, North Yorkshire, will service all Courage's pub customers.

Mr Michael Foster, Courage's managing director, said that the moves followed a thorough review of the needs of the new operation in an increasingly competitive market.

The company would try to avoid compulsory redundancies through voluntary programmes, early retirements, and redeployment.

The redundancy rate in the service sector increased by 40 per cent last year, according to the latest analysis of Department of Employment figures, writes Diane Summers, the increase compared with a 22 per cent increase in the redundancy rate for manufacturing and an 11 per cent increase in other industries.

Employees in manufacturing and other industries were, however, still twice as likely to lose their jobs as workers in the service sector. Comparative rates were: 5.8 per 1,000 employees in the service sector; 12.8 in manufacturing; and 14 per 1,000 in other industries.

## ENERGY

## Blasts rock North Sea oil platform

By Deborah Hargreaves

THE Fulmar Alpha North Sea oil platform was rocked by a series of explosions yesterday morning which left two men and a woman injured and caused the evacuation of 40 workers from the rig.

The blasts came eight minutes after the crew of the rig were stood down from an earlier alert caused by a gas leak. Mr Brian Ward, production director of Shell which operates the platform, said yesterday: "There is no established connection between the gas alert and what happened subsequently."

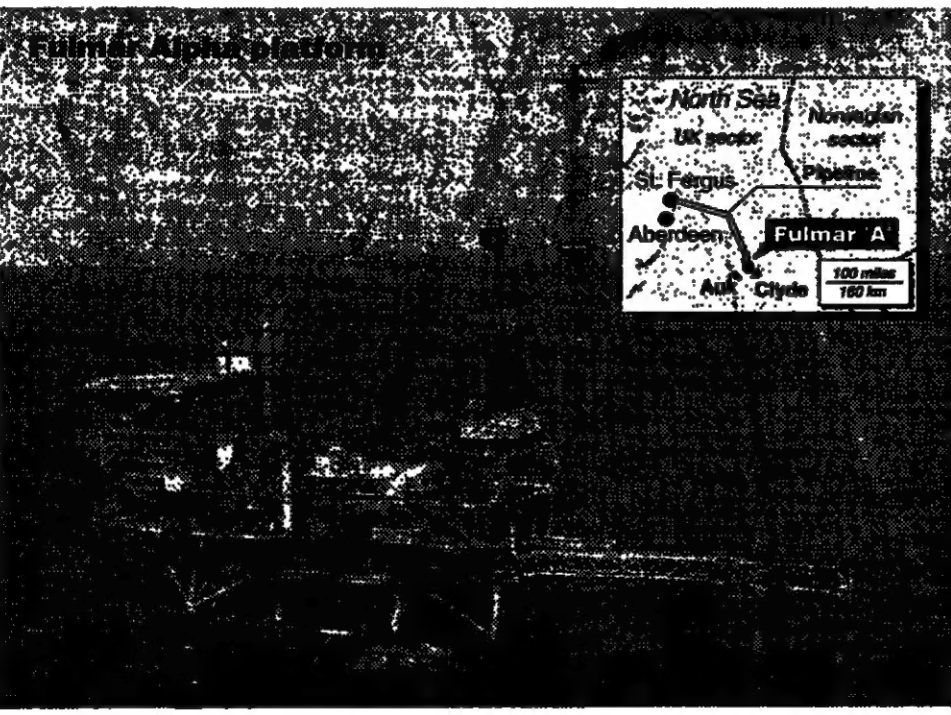
Teams of inspectors from the company and the Health and Safety Executive arrived at the rig late yesterday to try and determine the cause of the explosions.

The accommodation module took most of the impact of the blast and damage was concentrated on a floor of bedrooms.

The three people taken to hospital were suffering from second degree burns and shock. Shell said that around 80 core workers had remained on the platform.

Some controversy surrounds the site of the blast since accommodation modules are supposed to be the safest part of North Sea platforms. Mr Ronnie Macdonald, head of the Offshore Industry Liaison Committee called for an investigation into a possible design flaw in the rig.

Shell immediately closed oil production at the platform which was running at 130,000



barrels of oil a day (b/d) although it later said that production facilities had not been damaged.

The company also closed output at the smaller Auk rig which is linked by pipeline with Fulmar and which produces 5,000 b/d.

At the same time, British Petroleum shut off production of 30,000 b/d from the Clyde field which is linked to Fulmar.

The explosion occurred just hours before the release of a House of Commons select committee report which criticised the government's registration of offshore incidents as inadequate.

The report said that, in a bid to reduce the number of accidents reported in the North Sea, many occurrences went unreported.

Mr Frank Dobson, labour

energy spokesman said: "The government is remiss to the point of negligence on its review of North Sea safety."

The oil industry is estimated to have spent \$850m on safety work since a disaster in 1988 when the Piper Alpha oil platform exploded killing 167 people. Future expenditure is estimated at between £1.7bn and £2.5bn over the next 5 years.

## MPs back trade unions on offshore safety

By Deborah Hargreaves

OFFSHORE safety training for rig workers should be mandatory and paid for by oil industry employers, a cross-party group of MPs urged yesterday.

But the responsibility for safety and survival training should be transferred to an independent body, the House of Commons energy select committee recommended in its report.

The report came down broadly in favour of many points raised by oil industry trade unions, including the need to look into secret ballots for union representation offshore. Few oil companies recognise trade union membership for contract workers on offshore rigs and this has previously led to widespread industrial unrest in the North Sea.

Unofficial industrial action in the North Sea last year over union representation and safety issues led to several wildcat strikes and systematic disruption. Although there has been no industrial action this year, unions and management still have a long way to go before reaching any agreement on recognition.

## Government spends 'too much' on N-power

The government plans to spend too much on nuclear power and too little on alternative sources of energy, a report by the Commons Energy Committee concludes writes Juliet Sychara. Yesterday's report into the Department of Energy's spending plans, compared the government's £90m budget for research into a nuclear fast reactor in Scotland with its £4.2m proposed expenditure on research into tidal power. Research suggested that wave power could cost as little as 5.5 pence per kilowatt hour, compared with the committee's estimate of 6.6p per kilowatt hour for nuclear power.

The report also called on the Department of Employment to look into the differences in the rights of offshore workers compared with those onshore.

In addition, unions have frequently complained that workers nominated as safety representatives offshore have been subject to discrimination, even that a blacklist of these nominees has been compiled in order to stop them seeking employment elsewhere in the North Sea.

The MPs recommend that regulations relating to safety representatives should be reviewed and that the Health and Safety Executive should investigate claims that oil

industry managers put pressure on candidates not to stand for nomination as a safety representative.

The report also calls on the HSE to investigate claims of discrimination against safety representatives and demands they should be allowed to inspect any information held on them by oil companies.

"We believe safety representatives are subject to intimidation," said Mr Fred Hicks, national secretary for the oil industry at the Amalgamated Engineering Union, "and we've brought this up before John Wakeham (secretary of state for energy), but things will not improve until we have trade

union members in those positions."

Responsibility for offshore safety was transferred to the HSE in April from the Department of Energy following a recommendation in a report by Lord Cullen into the Piper Alpha disaster three years ago in which 167 men were killed.

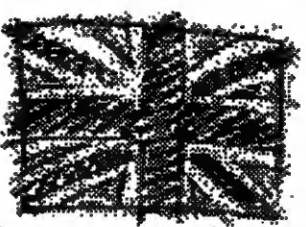
But the House of Commons report criticises concern over the low numbers of inspectors at the HSE to look at safety work on rigs.

Oil companies giving evidence to the committee said that 50 full inspectors were needed to visit every oil installation yearly, compared with current staffing levels of between 5 and 9 inspectors.

The MPs recommend more intensive training for safety work at the HSE as well as funds to recruit a sufficient number of inspectors.

In addition, the MPs said they were unconvinced of the expense involved in a relocation of the Department of Energy's Exploration Appraisal and Development unit from London to Aberdeen. It called for a review of the move by the Treasury.

## BRITAIN IN BRIEF



## Mortgage demand still in doldrums

Repeated cuts in UK base rates have had little effect on mortgage demand, according to the latest data from the Council of Mortgage Lenders. The data shows that net mortgage lending in the second quarter of 1991 rose slightly from that of the first quarter, but still remains well below the level of activity seen in the fourth quarter of 1990. Net advances in the second quarter totalled £7.15bn, up from £6.99bn in the first quarter, but down from the £7.52bn at the end of last year. Between the first and second quarters, mortgage balances grew by 2.4 percent, against 3.5 percent in the same period last year.

## Hurd to give inquiry evidence

Mr Douglas Hurd, foreign secretary, will give evidence to a judicial inquiry on his role in referring the Maguire Seven and Guildford Four terrorist bombing cases to the Court of Appeal while he was home secretary. He has agreed to attend the inquiry, set up following the quashing of the Guildford Four convictions in October 1989, which is holding a series of public sessions next month.

## Schools receive larger budget

Schools in England and Wales are receiving a greater proportion of the schools budget from local education authorities than ever before, Michael Fallon, the schools minister, has claimed. Out of a total schools budget of £11.5bn, £9.9bn was managed by school authorities in the year to March 31 - an increase of £125m over the previous year.

## Property sector still depressed

The property industry should brace itself for a spate of receiverships even though market conditions have stopped deteriorating, according to a survey of property lenders. The rate of property receiverships is expected to

## Warning to civil servants

Government employee unions have launched a campaign advising civil servants on secondment to Training and Enterprise Councils (TECs) to be wary of accepting offers to become Tec employees. Leaflets entitled "Your Future Under Threat" have been distributed by the CPSS, NUCPS and IPMS civil service unions to the 6,000 civil servants who are working in Tec on three-year secondment from the Department of Employment. Tec described the leaflets as "scaremongering" and likely to worsen a situation where it was feared up to 50 per cent of seconded staff might opt to return to the department.

## Directors want plans shelved

The Institute of Directors has called on the European Commission to shelve its proposals for legislation on takeover bids. The institute said it agreed with the Commission's objective of creating a "level playing field" for cross-border mergers, but said this could be achieved more quickly if each member state set up a supervisory authority governed by a "clear set of rules" which must be lodged with the EC and clearly outlined in the EC draft proposals on legislation. The institute said the procedure and should be reviewed every five years until a permanent solution was agreed.

## US visitors to UK falls 30%

The number of visitors from North America to the UK in May fell by 30 per cent in comparison with the same month last year, according to government figures. The decline in May brings the cumulative fall in numbers of North American visitors for the first five months of the year to 29 per cent. The figures, from the Central Statistical Office, show that total number of visitors to the UK in May was some 4 per cent below the total reached in May last year. The total for the first five months of the year was 12 per cent down.

## Industry should 'invest now'

British industry has been challenged to invest in the reces-

## Patten wants 1992 election

Mr Chris Patten, chairman of the Conservative party, pictured below, has stated publicly that he wants the general election to be held next year. A contest should be delayed until after the European Community summit at Maastricht on economic, monetary and political union in December, Mr Patten says in a magazine interview published tomorrow.



## NHS pay to climb by 9%

Pay in the National Health Service, Britain's largest employer, will increase by an average of 9.25 per cent in the financial year 1991-92, well ahead of inflation for the period, according to the Public Finance Foundation.

## Insurance rates to be raised

Royal Insurance is to increase insurance rates by up to 80 per cent for householders living in parts of the south-east and other areas prone to subsidence. This comes after last month's announcement by Sun Alliance that it was also imposing sharp rises.

## EC agrees to stretch a point

The EC has agreed to take action to curb the influx of Chinese knickers coming into the UK from other European countries. The decision follows a lobby from the Knitting Industries Federation, which was concerned about the damage caused by high imports of Chinese knickers to UK underwear manufacturers.







## ARTS

## CINEMA

## Enough to make a critic turn turtle

Nigel Andrews is unimpressed by a sudden burst of sequel-mania

I woke up with a shock recently, realising I had been writing for this newspaper for almost 20 years. During that time the art of film criticism has advanced by a few miles, my understanding of why we do it by barely a few inches. Reviewing movies is still a beautiful mystery indulged in by an obscurely motivated fraternity.

There are weeks of radiant, stained-glass beauty when critics see through hallowed hues to eternity. Who can forget their first viewing of *ET*, their first or umpteenth viewing of *The Godfather*, or that transcendent week when *Distant Voices*, *Swiss Miss* and *A Fish Called Wanda*, two British masterpieces, opened simultaneously?

Yet if critics are a mystical brotherhood, there are also weeks when we have to scrub the monstrous floor or beat our heads with bludgeons. Take the new releases: *Teenage Mutant Ninja Turtles 2*, *The Return to the Blue Lagoon*, *Prayer of the Rollerboys* and other movies to test the pain barrier.

*Turtles 2* is subtitled "The Secret of the Ooze". Professor David Warner, mildly deranged in lank hair and lab coat, collects in canisters this mutation-generating liquid. Everybody fights over it like shoppers at a Selfridges sale, and some turn into slavering monsters, again like shoppers at a Selfridges sale. Happily the *Turtles* are around to see justice done and villains vanquished.

I enjoyed *Turtles 1* for the unique mutative process whereby a parodic comic-strip idea became a mainstream hit. (Did it ever happen before?) It suggested sophistication was running rampant over the world's youth. *Turtles 2* suggests that the next step after sophistication is senility. Writer Todd Langen and director Michael Pressman round up the usual style-tropes, fog them to death and then pour music over them. Even with the endorsement of the Pizza Marketing Board how many more sequels for singing, dancing amphibians can the world take?

If a turtle spin-off was predictable, few could have foreseen the importance of a film called *Return to the Blue Lagoon*. Writer Leslie Stevens and director William Graham,

**TEENAGE MUTANT NINJA TURTLES 2 (PG)**  
Michael Pressman

**RETURN TO THE BLUE LAGOON (12)**  
William Graham

**PRAYER OF THE ROLLERBOYS (15)**  
Rick King

**STRIP JACK NAKED**  
Ron Peck

**RECOLLECTIONS OF THE YELLOW HOUSE (18)**  
Joao Cesar Monteiro

abetted by executive producer Randal Kleiser, who directed the 10-year-old *Lagoon 1*, once more turn American puberty loose on the South Seas. Brian Krause and Milla Jovovich are the youngsters hurled from ship to shore and thence into Nature's crash course in sexual awakening. No doubt the movie will be as lucrative as its forebear, offering the same

*Turtles 2*: how many more dancing amphibians can the world take?



mixture of Edenic travelogue and naturist prurience.

"Nothing's the same around here!" cries young Krause one morning on waking up to find part of himself harder and larger than when he went to sleep. And Miss Jovovich, her shampoo-advertisement name matched by her acting style, shakes her silken locks with interchangeable pensive insouciance at every menace from sharks to menstruation.

When the world finally catches their paradise in the form of a shipload of leering sailors and rent-a-sideburn missionaries, you think it is all over with the idyll. But you reckon without the imperatives of sequel-mania. Brian and Milla have a baby and his blue eyes are made for another cast-away outing. The word "return" is already obsolete: it is probably time for a season ticket to the blue lagoon.

This was supposed to be the summer when few if any sequels were opening. What a hope. Even non-spinoffs like *Prayer Of The Rollerboys* plant the seed of continuity. This sci-fi adventure, made on a \$100 million budget, posits a futuristic world of neo-fascist slavers and young hero-informants. It

is summarisable as *Rollerball* meets *Mad Max*, except that the former's popularity and the latter's sequel mileage leave this clone stranded at the starting-block. Unabashed, writer Peter Niff and director Rick King herd their hero (Corey Haim) and heroine (Patricia Arquette) up to Oregon to incubate a sequel.

End of theme for the week? No. Ron Peck's *Strip Jack Naked*, is also a sequel, subtitled *Night Hawks 2*. Ridding footage shot for *Night Hawks 1* his tale of a gay school-teacher's coming out, Peck revisits the project like a painter trying to recapture earlier raptures. A long sequence of a gay encounter out from the earlier film is shown here partly (good reason) as an artist's exploratory second thought, partly (bad reason) in deference to the actor in it who has since died of AIDS.

*Night Hawks* was so plain a movie that it glowed with bonfire even while it clattered with banalities of plot and dialogue. Strip Jack Naked starts well - the early footage pilfered by slow motion as if by the memory's hazy remote-control - but then turns into a room under the wittily impressive gaze of an Adonis model. Thoughts on moral tyranny and sexual stereotyping were alienated into a gilded, funny revue-sketch. In *Strip Jack Naked* the tone is untransmuted self-pity shading into unalloyed self-importance.

Two years ago Peck made the marvellous short film *What Can I Do With A Male Nudist?*. There candour and repression chased each other around a room under the wittily impressive gaze of an Adonis model. Thoughts on moral tyranny and sexual stereotyping were alienated into a gilded, funny revue-sketch. In *Strip Jack Naked* the tone is untransmuted self-pity shading into unalloyed self-importance.

The Portuguese film *Recollections Of The Yellow House* proves the trest of the week. It is not, miraculously, a sequel. But it is about life as a cycle of repetition and it unfolds like a Samuel Beckett play re-written by an Iberian Beachcomber.

In a baggy and overboarded house a thin, bird-like man of advanced years, played by the film's writer-director

Joao Cesar Monteiro, nurtures his gloomy sensuality. Despite his resemblance to a vulture on hunger strike, he courts the lady's police-cadet daughter and workaholic drinks her bathwater. Please blindfold Aunt Edna during the incident of the single, savoured public hair.

Hours pass. Days. Weeks? Our hero is wandering the streets in a Strömberg-style officer's uniform and being signed up for a mental asylum. Will he survive? Will he fulfil his Casanova dreams? Will he gain access to anything that could justifiably be described as a plot?

Like Beckett, the film raises inconspicuously to high art. It is so slow and meandering at one point that I briefly fell asleep. When I woke up, nothing had changed. The same pained characters exchanged the same pained syllables against the same yellowing painted walls. Meanwhile the English subtitles, catching the air of stricken surrealism, gave us lines like "That hermaphrodite, he's knackered my Julietta!" and "What was in your mind when you introduced yourself subreptitiously into the barracks?"

Frankly, I do not remember the film winning the Silver Lion at Venice two years ago, as the poster proclaims. But perhaps it did. Certainly in a thin week, it tries the daring strategy of being even thinner than its competition: stretching its story into a filigree of anorexic nuance. It is frequently marvellous, except for Monteiro himself, who is ceaselessly marvellous.

Finally, two for the curio drawer. Marco Ferreri's *The Last Woman (La Barabara)* is a satirical 15-year-old Italian film that bangs on about Gerard Depardieu banging on. It ends in self-castration, which is perhaps the only appropriate conclusion. Happily, it is only one of a season of mostly better Depardieu movies.

Do *Blues Rock-a-Doodle* (U, Odeon Mezzanine) is an animated feature from the maker of *An American Tail* and *The Land Before Time*. An Elvis Presley rooster, a Charles Laughton evil owl, and many other barnyard wonders lost in a plot so ill-shaped and over-the-top that you almost forget to crow at the visuals. But they, colourful and kinetic, are worth the odd throaty fanfare.

## When She Danced

## GLOBE THEATRE

Vanessa Redgrave is having another go at playing the most important dancer of the twentieth century, Isadora Duncan, some 20 years after she played Isadora in the film. You can see why people link the two. It is part of Vanessa's legend, like Isadora's, that she can be incontinent and that her left wing politics make her a controversial figure.

But, though she doesn't have to dance this time, she is still all wrong. Isadora, who was famous for proclaiming that her body's dance core was the solar plexus, used to stand still and let music irradiate her from that centre of levity outwards. When Vanessa stands and listens to music, she is shimmier and sharper than Isadora was in the year of this play - 1923 - but she has no motion in stillness. She merely thinks Great Thoughts from the collarbone upwards until her eyes brim with tears. A key scene in the play, Vanessa cannot bring it off.

In most other respects she gives the performance that this neatly tacky play asks for. This Isadora is a befuddled, sozzled, helpless, half-glamorous bore, a thoroughly camp far-had icon on the skirts, but with a sense of humour. The fact she doesn't dance is the play's point. Younger characters long to see her dance just once, older characters remember how her dancing once changed their lives, but Isadora is dried-up. If not dried-out. When she isn't being gauche, louché, muddled or jokey, she snivels and whines in self-pity.

When *She Danced* is a farce, with bits of sadness and dance-history tactlessness. Isadora, who here speaks no Russian, is married to Sergei Essenin, who speaks nothing else. They sell the furniture to pay for the champagne, and they are surrounded by cartoon-like hangers-on.

Sherman makes occasional points about the irony that Isadora has outlived her art or *bravo, viva long!* but he handles her decline with such ghouliah relish that you know where his heart lies. His Isadora and Sergei aren't real, they are artfully crazy theatrical types. They torment each other, they get wildly drunk, they smash crockery, they make love, they behave like kids and are cleaned up after by a humourless French maid.

Sherman does not want to portray Isadora's intelligence or adult seriousness. Impossible to believe from this play, or from Vanessa's performance,



Vanessa Redgrave as Isadora Duncan

that Isadora was steeped in Whitman, Nietzsche and Wagner, that she denounced jazz and the fox-trot, that she was a feminist, that she had intense discussions with Stanislawski. Or that her Moscow school of dance survived till after the Second World War. Or that there is enough documentation on her work to show how way ahead her dances were of other barefoot dancers of her day.

Robert Allan Ackerman, who also directed the 1968 premiere, handles the action for as many laughs as possible. The ludicrous dinner-party in Act Two, with six (later seven) different languages going on, climaxes in - can you believe it? - a custard-pie joke. Graham Lustig has choreographed a dance for an Isadorable which is clever as a deliberate parody of Isadora but ludicrous as the sincere imitation it is supposed to be. Most of the performances are on the cheap level of the play. Michael Sheen plays the gay Greek teenage pianist Elio-poulos as half Rik Mayall (*The Young Ones*), half Manuel

(*Family Ties*). Alison Fiske plays Isadora's best friend Mary Desti as a parody of an American gorgon, and Sheila Keith is the French maid. Each is a national caricature, more or less atrocious.

As Sergei, the Soviet actor Oleg Menshikov has real drive, humour and freshness. His role is another stereotype - the uncouth, huggable, cute wild-boy - but he plays it beautifully. The way he kisses Isadora in waltz-time is the evening's only stroke of theatrical magic. And Frances de la Tour, speaking excellent Russian, is first-rate in the play's one interesting role, the unknown Hannah Beitzler, who translates Essenin's most explicit statements into English but who never gets to tell Isadora how her dancing once illuminated her whole existence. She has an inner life, like a character from Balzac or Maupassant. And as with no one else on stage, you want to know more about her.

Alastair Macaulay

## Inscape

## COVENT GARDEN

Graham Lustig's newest piece for Birmingham Royal Ballet has, alas, mistaken introspection for inspiration. Its title, *Inscape*, is owed to Gerard Manley Hopkins; its theme, we are told, is an exploration of psychic states associated with the words *destruction*, *motion*, *flow*, *attraction* (which the Opera House programme can't spell), *hesitation*, and *acceleration*. It is, as you may judge, one of those ballets that drag a good deal of intellectual baggage on to the stage. That the baggage is unnecessary for Isadora and her troupe is, sadly, nowhere. The young cast are not enhanced by their assignment.

The two other works in this current triple bill are blessedly frank in demanding to be danced full-out. The Grand Pas, a semi-professional harmony group whose opening tour is cut short by a fatal accident, and who are allowed one night back on earth to finish the show (Steve McGraw's Place, 158 West Seventy-second Street, 695-7400).

● Mumbo Mouth, written and performed by John Leguizamo, is a play featuring seven comic character sketches (Orpheum Theatre, 126 Second Avenue, 477-2477).

● The Time Machine is Harv Dean's stage adaptation of H.G. Wells' classic science fiction novel, in which an English inventor travels a thousand years and finds a world of total strangeness (Upstairs at the Second Studio for Actors Theatre, 163 West Twenty-third Street, 453-7050).

● Forever Plaid is a musical comedy written and directed by Stuart Ross, about a semi-professional harmony group whose opening tour is cut short by a fatal accident, and who are allowed one night back on earth to finish the show (Steve McGraw's Place, 158 West Seventy-second Street, 695-7400).

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"meaning" to reach a public - appears inert, self-obsessed in the Opera House. Against a clever gauzy set (Henk Schut) whose single curve makes it look as if the moon had suddenly come close, five couples are permutated in dances that have a singular lack of motor force. At moments the choreography is so concerned with its own *inscape*, so fixated upon its navel, that the dance is in danger of stopping in its tracks to consider where it has been and whither it is going. The answer to this query is, sadly, nowhere. The young cast are not enhanced by their assignment.

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allegro solos with a very pretty turn of speed, bubbling through difficulties which would trip less sure and light-footed dancers. Ashton's *Jazz Calendar* now looks very much of its late '80s period in Derek Jarman's *Op-Art* designs. It looks back ever further than that, though, in its dances, for its seven numbers are reminders of the revue work through which Ashton polished his craft in the 1930s, working for such figures as C B Cochran. It is a filmy ballet, and doesn't bear much exposure, but it has surest craft in construction, and enough clever tricks of step and production to keep the eye beguiled. It needs, however, more polished and wittier performers. Saturday's men look a notably uneven bunch - if its jokes are not to seem laboured.

Clement Crisp

## Così fan tutte

## QUEEN ELIZABETH HALL

This is David Freeman's exuberant Opera Factory production, back on the South Bank again and very welcome. As rude modernisations of Mozart go, it offers outstanding rewards. Even opera-lovers who reject the very idea must recognise the provocative insight Mozartians owe it to themselves not to miss it.

Most of the original *Così* takes place in the two emmanoured sisters' villa on the Bay of Naples. Freeman retains the Mediterranean beach, but in package-holiday terms; for the engaged couples this is clearly a relaxed, irresponsible vacation-break. Wisely, Freeman does nothing whatever to resolve literal-minded questions: how, in these modern circumstances, could the male partners believably be summoned to instant military duty? What kind of "servant"

is Despina now, bewailing her down-trodden status in scene 8 after the sisters have cuddled her like an intimate equal in scene 2?

Freeman concentrates instead upon the disparity between his modern pairs and their 18th-century counterparts. As defined by Mozart's librettist da Ponte, those earlier couples were under the uncertain sway of a literary ideal of fidelity ("If you say you love me, you have to mean it forever"), and the girls were further constrained by what period-decency prescribed for respectable maidens. In beach-holiday terms, none of that applies: all the lovers are erotically volatile, and the only risks they run are of personal embarrassment - along with possible damage to their self-images.

There are other period-pieces

by Rossini and Cimarosa, and by Mozart himself, which modern productions regularly fail to draw justice because they don't do justice to the force of period-social constraints. (Don Bartolo and Don Magnifico are authority-figures of unquestioned clout, however comic, and Count Almaviva must command deference even in farcical straits: to diminish them is always to reduce the dramatic voltage.) In *Così*, however, Mozart composed his characters according to their immediate feelings - heartfelt even when groundless, as in the "farewell" quintet and trio (beautifully sung here), nicely exaggerated in the girls' initial protestations, painfully candid in everybody's later discoveries.

There is easily enough musical detail to sustain an erotic tale in a floating, amoral con-

text (more precisely a stage-world sandpit). Freeman's favourite setting, and the principals make their individual most of it. Four of them have been here before: Marie Angeli's rapt, exasperated Florestine, the double-act of Nigel Robin and Geoffrey Dolton as the male-bonded swains, Tom McDonnell's darkly cynical Phlorentino (now almost pitchless in recitative). The new Dorabella is Marilyn Bennett, a clever comedienne who uses her big, gleaming mezzo to sure musical purpose - I predict an enviable career for her; Susannah Waters' Despina, knowingly languid, needs just an extra touch of disillusioned pragmatism.

The new conductor is Mark Wigglesworth, full of bright ideas that await fitting into a longer view. He took the Over-ture at unbridled speed (testing

the breath control of his first-desk winds severely), with hairpin string-whirls like Zagorsek's at Glyndebourne. Neither of the great act-finales was realised, I thought, in full depth and urgency - but probably for different reasons.

For the Act I close the tortuous physical business Freeman has devised raises so many laughs, as before, that the music (despite bravura singing, sometimes upside-down) is continually drowned out. The net result is unsatisfying; so too the Act II finale, where the happy, all-forgiveness surge of the music founders amid the visible fear-and-loathing of the still unreconciled couples. Valid as it-crit, no doubt - that last makes a long evening, one that cries out for a decisive rounding-off.

David Murray

## INTERNATIONAL ARTS GUIDE TODAY'S EVENTS

## AMSTERDAM

Concertgebouw 20.15 Marc Albrecht conducts the Gustav Mahler Youth Orchestra in Stravinsky's *Petrushka* and Chopin's *First Piano Concerto*, with Tzimon Barto. Sat: Czech Chamber Orchestra and World Youth Choir in a programme of music by Mozart, Ligeti and Petr Eben (6718 345).

## BRUGES

Stadsschouwburg 20.30 Arleen Auger, accompanied by Melvyn Tan, gives a recital of songs by Mozart, Haydn and Schubert. Tomorrow in Sint-Ankerker: The King's Consort in a programme of Purcell and Blow. Sat in Sint Walburgakerk: Eton College Chapel and The King's Consort in a programme of Handel and Purcell (050-448698).

## COPENHAGEN

Tivoli Koncertsalen 19.30 Kees Bakels conducts Tivoli Symphony Orchestra in Dvorak's Sixth Symphony and Piano Concerto, with Rudolf Firkušný. Tomorrow: Aage Haugland gives a recital of

songs by Mozart and Mussorgsky. Sat: Mon: Aksel Welteus conducts Tivoli Symphony Orchestra. Next Tues: Vladimir Ashkenazy conducts ECHO in Mahler's Third (3315 1012).

## GENEVA

Hôtel de Ville 20.30 Arpad Garez conducts the Orchestre de la Suisse Romande in Bartok's *Divertimento* for string orchestra, Beethoven's Fourth Symphony and Honegger's Cello Concerto, with soloist Daniel Grosgrain. Sat: Heinz Holliger, Ursula Holliger and Jean Sulem play music for oboe, harp and viola. Sun and Mon in Eglise Saint-Germain: Christophe Colin and Michel Klener play Bach sonatas for viola da gamba and harpsichord. The Geneva summer concerts continue till mid-September (289982).

## LONDON

DANCE Covent Garden 19.30 Birmingham Royal Ballet triple bill: Gailina Samosova's production of *Pasquita*, Frederick Ashton's *Jazz Calendar* and Graham Lustig's *Inscape*. Tomorrow and Sat: David Bintley's full-length ballet *Hobson's Choice*. These are the final performances of the BRB's London season (071-240 1066).

Royal Festival Hall 19.30 English National Ballet in a popular programme comprising Vicente Nebrada's *Our Waltzes*, Ben Stevenson's *Three Preludes*, a section of classical *Divertissements* and David Lichine's *Graduation Ball*. Repeated tomorrow, with matinee and evening performances on Sat. Next week: Ronald Hynd's

production of *Coppelia* (071-928 8800).

MUSIC Queen Elizabeth Hall 19.00 Opera Factory production of *Coal fan tutte*, directed by David Freeman and conducted by Nicholas Kok. Also Sat (071-928 8800).

Royal Albert Hall 19.30 Witold Lutoslawski conducts the BBC Symphony Orchestra in two of his own works: the world premiere of *Chantefleurs et Chantefables*, with Solveig Kringlebotn soprano, and the Cello Concerto, with Natalia Gutman. In the same concert, Mark Wigglesworth conducts Britten's *Sinfonia da Requiem* and Bartok's *Musica for Strings*, Percussion and Celesta. Lutoslawski gives a pre-Prom talk at 18.15. Tomorrow and Sat: Jukka-Pekka Saraste conducts Sibelius, Schumann, Magnus Lindberg and others in two concerts with the Finnish Radio Symphony Orchestra. Sun: Joan Rodgers sings in Mozart's *Mass in G major*. Mon: Matthias Bamert conducts Alexander Neveky (071-923 9988).

THEATRE Royal Shakespeare Company In the Barbican main theatre, Chekhov's *The Seagull* is showing tonight, directed by Terry Hands, with a cast including Susan Fleetwood, Simon Russell Beale and Roger Allam. Tomorrow and Sat, there are performances of *Jan Jugga's* colourful, camp production of *The Comedy of Errors*. Tonight's performance in *The Pit* is of *The Last Days of Don Juan*. Nick Dear's adaptation of *Tirso de Molina's* bawdy morality play, *Sam Mendes's* production of *Troilus and Cressida* can be seen tomorrow and Sat, with a

cast led by Ralph Fiennes and Amanda Root. Next week: repertory includes *King Lear* and *Christopher Marlowe's* *Edward II* (071-638 8891).

New Shakespeare Company At the Open Air Theatre, Regents Park, Macbeth tonight and tomorrow, directed by William Gaunt and designed by Bruno Santini, with Peter Woodward and Nicola McAuliffe as the leading couple. There are matinee and evening performances on Sat of *The Boys from Syracuse*, Rodgers and Hammerstein's musical, and *The Comedy of Errors*, in a hugely enjoyable production directed by Judi Dench (071-486 2431).

For information about other shows, phone Theatreline from anywhere in the UK: Plays 0836 430869, Musicals 0836 430980, Comedies 0836 430961, Thrillers 0836 430982.

## NEW YORK

Avery Fisher Hall 20.00 Bruno Weil conducts music by Mozart and Schubert, played on period instruments by The Classical Band and Malcolm Bilson for tripeano. Tomorrow and Sat: George Cleve conducts Mostly Mozart Festival Orchestra in Mozart's Piano Concerto No 17 with Peter Serkin and Violin Concerto No 2 with Pamela Frank. Mon: Eugenia Zukerman and Garrick Ohlsson join the Takacs Quartet in a programme of chamber music by Mozart and Schumann (675 5030).

OFF BROADWAY THEATRE ● *Lustig: A Play About a Play* is a comedy by Sam Henry Kees, in which four working-class singles find that the only thing worse than

being alone is being involved (Forty-fifth Street Theatre, 354 West Forty-fifth Street, 564-8038).

● The Time Machine is Harv Dean's stage adaptation of H.G. Wells' classic science fiction novel, in which an English inventor travels a thousand years and finds a world of total strangeness (Upstairs at the Second Studio for Actors Theatre, 163 West Twenty-third Street, 453-7050).

● Forever Plaid is a musical comedy written and directed by Stuart Ross, about a semi-professional harmony group whose opening tour is cut short by a fatal accident, and who are allowed one night back on earth to finish the show (Steve McGraw's Place, 158 West Seventy-second Street, 695-7400).

● Mumbo Mouth, written and performed by John Leguizamo, is a play featuring seven comic character sketches (Orpheum Theatre, 126 Second Avenue, 477-2477).

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Greek, also Sat. Tomorrow and Sun: Nabucco: The Caracalla Music Festival runs till August 21 (488 3641).

## VERONA

Arena This weekend's events consist of John Cranko's production of the Prokofiev ballet *Romeo and Juliet* (tomorrow), Turandot conducted by Daniel Oren, with Maria Noto in the title role (Sat), and Nabucco with Sylvano Carroli in the title role and Linda Roark Summer as Abigaille (Sun). Performances continue till the end of August (045-800 5151). Teatro Romano 21.00 Programme of five ballets devised and performed by the Alvin Nikolais and Murray Louis Dance Company, repeated tomorrow and Sat. (045-807 7111).

## VIENNA



# FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 8HL  
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Thursday August 8 1991

## Questions for Mr Baker

THE MANAGEMENT of Britain's prison system is an example of public administration at its worst. Many of the inmates should not be serving custodial sentences. Most of them spend most of their time either locked up or in corridors. They are less likely to re-offend if while incarcerated they receive useful training or work in productive jobs. Only a small minority do so. The great Victorian penitentiaries, built to house prisoners per cell, all too often crowd their guests in twos and threes. Sanitary conditions are still for the most part unspeakable. Prison officers work to antiquated rules, their productivity kept low by a union whose notions of representation are anachronistic to say the least. It is hardly surprising that there were riots at Strangeways, or that two IRA suspects escaped from Brixton. Much is being done to improve the system. The criminal law now encourages courts to look for alternatives to imprisonment as a means of punishment of non-violent offenders. Perpetrators of violent crimes tend to be kept inside for longer. The home secretary, Mr Kenneth Baker, has spoken in favour of reforms that would seek to keep inmates in training or usefully employed; unfortunately he seems unable to extract money from the Treasury. Without it he will be unable to implement these measures, or indeed most of the other reforms proposed by Lord Justice Woolf following his inquiry into the Strangeways riots.

### Capital spending

Capital spending remains high. Mr Baker's predecessors initiated the most extensive prison-building programme this century. The new institutions are slowly beginning to come on stream. Decent plumbing is being installed in the older buildings. The government would dearly love to break the Prison Officers' Association, as it did the National Union of Mineworkers, but no home secretary has yet shown the necessary nerve. It is against this background of broadly minimalist home office policies that the escape

of the two IRA men must be judged. The report by Judge Tunin lays the blame on operational failures, of which it gives a lengthy list. In consequence, the prison governor directly responsible for operations inside Brixton has been obliged to retire early, while the head of the relevant section of the prisons department has likewise lost his post. According to Tunin there was the failure of overall policy. Mr Baker read this as meaning that there is no occasion for him to resign.

### High-risk prisoners

If parliament was not on holiday it would nevertheless be subject to a great deal of conjecture as to whether the Tunin thesis is right. In a report last December the judge had indicated that the most dangerous or escape-prone prisoners, those in the high-risk category "A", should be removed from Brixton. The home secretary could argue that his department was working towards doing that, at its own pace, but that pace seems not to have been quickened following a police tip-off last February that an escape was being plotted. After the escape the plan to house high-risk prisoners in the brand-new Belmarsh prison from November was brought forward to next week.

If there is a charge to be laid against Mr Baker it is not that his strategy is wrong. That is the responsibility of the entire government. Made in the home office, by departmental officials, the underlying policies enjoy cross-party support. Nor is there much with which to find fault in Mr Baker's presentation of his case to the public. He is very good at that. His weakness, as perceived in Whitehall, lies in the backroom work - in ensuring that the quality of administration is adequate. A minister is not accountable for policy alone. He must also make certain that his department is well run. The prison service manifestly is not. In most respects - even the taming of the POA - Mr Baker can be excused on the ground that he has not been in his job long enough to make an impact. In some, like the decisions on the category A prisoners at Brixton, that explanation does not wash.

## Seeing sense on hostages

WHEN A White House spokesman said recently that the Middle East peace process involved many contacts much less visible than those of Mr James Baker, the Secretary of State, he was probably referring, among other things, to the hostages held in Lebanon. Too often in the past, hopes for their release have been cruelly raised by hints from the region that a breakthrough was in hand. For that reason alone it is important to remain cautious about the reports in the Tehran Times on Tuesday that two western hostages would soon be freed.

But it is justified to consider whether the political context in which the hostages are still being held has become more propitious. Since Mr Terry Anderson of the Associated Press, was seized in Beirut on March 16 1982, the region has been turned on its head.

Iran, which has undoubtedly influenced on Islamic Jihad, the group holding Mr Anderson, was forced to sue for peace in its eight-year war with Iraq then had the satisfaction of seeing its enemy, President Saddam Hussein, suffer a heavy military defeat. President Hashemi Rafsanjani of Iran does not like the consequent increase in US power in the Gulf, but Iraq's defeat allows him a wider regional role and a better opportunity to press ahead with the reconstruction of his country's battered economy.

### Iran's milestone

Mr Rafsanjani knows that Britain will not send an ambassador to Tehran or restore export credit guarantees until there is progress on the hostages. He is equally aware that continuing US hostility leads to incidents such as the recent blocking of British civilian aircraft sales to Iran. He might easily dismiss such setbacks when seen against the background of his country's wider economic contacts, but what he cannot ignore is that Iran derives no compensating advantage by being associated with Islamic Jihad, or other extremist factions in Lebanon. Indeed, the hostage issue is a millstone around Iran's neck, and especially damaging to its efforts at presenting itself as a more modern and pragmatic

Fascinating as it may be, the story of Bank of Credit and Commerce International (BCCI) - and the Banca Nazionale del Lavoro, Bank Bumiputera, Banco Ambrosiano, Bank of Boston, and other banking scandals - is merely symptomatic of a much deeper set of issues, only rarely discussed in the media. Each revelation finds its origins in markets that are not allowed to function well. This invariably gives rise to a murky, underground market that usually functions very well indeed, the international market for financial secrecy.

Like many other banks, BCCI set out in search of inefficient financial markets, that is markets in which there is money to be made through the significant spreads facing buyers and sellers of financial services. To remain viable in competitive markets, financial institutions are under constant pressure to contain costs and better manage risks. And they must persistently search out any remaining pockets of profitability by applying process and product innovations, and by penetrating new client groups and geographic markets where their competitive resources can be effectively brought to bear. Unfortunately, financial institutions usually discover that these new markets themselves sooner or later become more efficient and less profitable as a result of their own efforts and those of their rivals.

Two closely inter-related factors, however, can provide an assured source of sustained profitability for banks willing and able to take advantage of them - market distortions and the market for financial secrecy. Both are characterised by persistent inefficiencies and potential for enormous amounts of cash.

Tapping into such market inefficiencies means, logically, finding the most heavily distorted national economies and then ferreting out viable ways to do business in them. The obvious choice, the command-type economies of eastern Europe, usually presented a difficult environment. Much more attractive inefficiencies have always been lodged in developing countries bent on pursuing misguided macroeconomic policies using direct controls, often with heavily overvalued currencies, where many public and private transactions are undertaken far removed from open and fair markets. When BCCI styled itself as a Third World bank it created a niche for itself for doing well by (ostensibly) doing good.

Of course, such market distortions are not confined to heavily controlled economies; they also exist in economies based on free-market principles. Taxation is universally applied to finance public expenditures. Specific products such as cigarettes and alcoholic beverages are often exceedingly heavily taxed for revenue reasons and to discourage their use. Regulation of various aspects of economic life, ranging from pollution control and the number of taxis permitted, to bank safety and soundness, exist even in the most liberal economies. And there is the whole range of activities defined as criminal, including the sale and use of controlled substances.

Yet banned or restricted activities continue to be carried out in organised and unorganised fashion as long as there is demand, through what are

Ingo Walter asks what is to be done to plug the holes in the network of international supervision that allowed BCCI to flourish

## The market for financial secrecy



often highly sophisticated underground channels renowned for their market imperfection and extreme profitability. It may thus have been a rather small step for BCCI successfully to transfer the business practices it cultivated in its Third World origins and corporate culture into servicing these particular markets in the industrial countries.

Avoidance and evasion of controls imposed by governments usually involves transactions between buyers and sellers that are considered illegal, immoral or irresponsible, and therefore create the need for financial secrecy - and willingness to pay for it.

There are all kinds of reasons for financial secrecy that in most societies are considered perfectly legitimate, ranging from personal privacy and business confidentiality to the conduct of foreign policy. Yet it can easily be used for illicit transactions as well. The drug trade, capital flight, tax evasion, official corruption, weapons trafficking, terrorist activities and financial fraud give rise to enormous money flows that must be kept secret at their source. Naturally, any individual or group is willing to pay for financial secrecy depending mainly on the perceived personal and financial cost of disclosure. The higher the cost, the greater the willingness to pay. The price comes in the form of higher fees, lower yields, and higher risks associated with financial transactions and the management of financial assets that would exist if secrecy were not a con-

sideration. It also comes in the form of so-called "agency costs", the risk that a client who is in no position to respond due to the risk of disclosure will be charged extortionate fees, stuffed with substandard assets, or have his portfolio stolen from or "churned".

In short, it is easy to visualise a three-way trade-off between returns, risk and secrecy - the first two must be sacrificed to obtain the third. As in any economic process, demand creates its own supply. And so there have always been individuals, institutions and countries that make a business of selling secrecy. These include banks, trust companies, casinos, lawyers and accountants, as well as nations with strict secrecy and blocking statutes.

Normally, the financial secrecy involved is fully sanctioned by society and represents an inexpensive off-the-shelf "commodity" service, such as restricted insight afforded all banking clients. It is enhanced and perhaps custom-tailored secrecy services are required - such as the use of multiple offshore secrecy havens, money laundering, creation of layered shell corporations and trusts, fictitious invoicing, and back-to-back lending - that higher prices are encouraged. The lower the probability of disclosure, the higher the price. And the less reputable the secrecy vendor, the greater the agency costs.

The notion that providing clandestine financial services to those in need of secrecy can be extraordinary and lucrative is self-evident. BCCI seems to have exploited this highly

imperfect market with great skill. It may well be that BCCI did not begin life the way it ended, that its founders did indeed intend this to be an "ordinary" bank. But a successful "ordinary" bank must bring to the table financial, technical and human resources that BCCI never had, and must position itself in markets that are under constant threat of competition from powerful rivals. So BCCI appears to have quickly gravitated to the most imperfect of financial markets, markets that could be highly profitable and virtually immune from competitive erosion. To exploit this global niche, BCCI had to acquire appropriate resources, the most important being people willing and able to evade and suborn law and regulation worldwide.

It also had to create elaborate canopies in the form of Byzantine internal and external accounting and reporting arrangements - including the nefarious "bank within the bank" - as well as a large volume of legitimate business. But the bank's extraordinary growth and profitability clearly were impossible to explain in terms of ordinary business. And the solvency problems gradually becoming apparent with ongoing investigations go well beyond the usual "bananas skins" (in areas like real estate and sovereign lending) that have bedevilled ordinary banks in recent years.

Banks that evolve along the lines of BCCI can impose on society exceedingly high costs through financial and behavioural contamination. Most obvious on the financial side are the

costs imposed by ultimate failure on uninsured creditors, including small depositors, and on the taxpayers underwriting any safety-nets that may have to be called upon. Many large, sophisticated financial institutions have with BCCI long ago, concerned about lack of openness and transparency risk, so that classic banking contagion problems may not arise in this case. And BCCI seems to have been successfully prevented from contaminating some other financial institutions through acquisitions.

Among the non-financial social costs, institutions like BCCI clearly help undermine the fiscal and political integrity of governments and facilitate all kinds of activities damaging to society - most notably bribery and corruption of public officials, organised crime and drug trafficking.

What is to be done? Plugging holes in the network of international supervision seems to be on the burner of galvanised central banks and outraged politicians. Criminal charges are being vigorously pursued in a number of countries, and will send important signals to bankers. But while such initiatives are clearly necessary and are hardly sufficient, they uniformly ignore the fact that BCCI was largely a creature - indeed a logical consequence - of conditions created by governments in which market imperfections and financial secrecy flourish.

More lasting solutions surely lie in reforming some of the underlying factors that created the demand for BCCI's services in the first place. What would happen to capital flight and evasion of exchange controls if governments pursued responsible economic policies that produced positive real interest rates and maintained healthy exchange rates? What would happen to tax evasion if governments pursued broad-based tax policies widely considered to be both reasonable and fair? What would happen to drug-money laundering if controlled substances were legalised, or alternatively if users and suppliers alike were subject to draconian penalties? And what would happen to bribery and corruption of public officials if a whole gamut of dysfunctional controls on the conduct of business were removed, leaving them with few favours to grant or withhold?

Such initiatives would target the demand for the kind of financial services in which BCCI appears to have specialised. In effect, they would have undermined the economic basis of BCCI's very existence. Some of these initiatives are increasingly perceived to be in the public interest and are being applied as part of economic policy reforms, especially in developing countries like Mexico. Others like drug legislation or liberalisation of health and safety standards will never be widely implemented, because the social and political costs of doing so are considered excessive. For them, supply-side approaches that make the financial aspects of illegal activities far more costly and risky may indeed represent progress. But precision surgery of this kind depends fundamentally on an understanding of the nature of the disease. The author is Charles Simon Professor of Applied Financial Economics and director of the New York University Salomon Centre.

## Nomura

In the chart that accompanied an article on the Japanese brokerage house Nomura, which appeared on this page on Monday, the figures for the operating profits of the top four Japanese brokers for the year to the end of March 1991 should have read: Nomura ¥327.6bn, Daiwa ¥129.2bn, Nikko ¥81.3bn, Yamachi ¥73.3bn.

## Monstrous mistake

When it comes to posthumous earning power, the all-time champions must be dinosaurs. Not only do books about them sell in millions, but in the words of Kele University historian Dr Hugh Thomas, "the money made out of them by their products - from bob rolls to ravioli - is enormous."

While the creatures themselves disappeared some 65m years ago, however, they were not relatively recent. They were seen as members of various different species until Sir Richard Owen, founder of Britain's Natural History Museum, identified them as all the same group.

His "inventor" of dinosaurs has in turn been identified as taking place in a lecture he gave to the British Association for the Advancement of Science in Plymouth in August 1841. Hence the 150th anniversary high-jinks including the issue of commemorative stamps by the Post Office, and the association's return to Plymouth for its 150th meeting.

Alas, the celebrations appear misplaced. The great scientific event did not happen in 1841. Torrens, having studied the lecture given by Owen, says that besides failing to mention dinosaurs it shows Owen still saw them as of different species. It was not until 1842 that he discovered otherwise and said so in a scientific paper.

And while one year in 65m might not seem much to the lay public or even to prematurely celebrating scientists, it matters a lot to the discipline of history.

### Bristol fashion

West Country residents probably should not worry at this stage that their illustrious local journals are soon to metamorphose into the *Western Daily* or *Big Bristol*.

## OBSERVER

Evening Post. David Sullivan, the former sex-shop supreme eyeing up the Bristol Evening Post, remains a realist at heart. The 42-year-old girl-magazine publisher, who brought the world's shock journalism to the masses as "World War II Bomber on the Moon" and "Aliens Turned My Son Into an Olive", is remarkably honest about his chances of getting a seat on the Bristol board today.

Observer touched him with him (by phone that is), in his bath yesterday and he was quite frank about the fact that he did not stand a chance of being elected at today's annual general meeting.

But despite all the splashing of water, I did hear him make out raising his 10 per cent stake or making a full bid in order to build a national daily based in Bristol.

### Fuse change

Being group managing director of a UK telecommunications company sounds like one of the more dangerous jobs around. Last year Graeme Ogden parted company with BT, Britain's biggest company, and now Cable and Wireless has lost Gordon Owen, its former managing director. Presumably Rascal Telecom's Gerry Wheat has been inspecting his service contract. But then he is chief executive, so his job should surely be a little more secure.

In some respects Gordon Owen's departure clears the air. Despite its glamorous stock market image Cable and Wireless's management has suffered from many of the same defects as BT. Much of the top management grew up in the equivalent of state-owned monopolies which are hardly the best breeding grounds for managers of growth businesses undergoing rapid technological change. Indeed, BT has probably gone



"I'll never forget where I was when I heard Kenneth Baker almost resigned."

further than Cable and Wireless in bringing outsiders into its top management. The record of Lord Young, Cable and Wireless's executive chairman, shows that he is jolly good at shaking things up. Choosing Gordon Owen's replacement and ensuring that C and W lives up to its new found slogan - the world telephone company - will be more difficult.

### Holiday plans

Does John Major know what he has let himself in for on his trip to President Bush's holiday home in Kennebunkport, Maine, at the end of this month? It is not going to be a quiet couple of days mulling over the rival merits of cricket and baseball. George Bush's idea of a relaxing time is a rapid round of golf, some vigorous jogging and a game of horse-shoes, all before breakfast. Mr Bush may have thought that Mr Major, 30 years his junior and fitter looking than either

Chancellor Kohl or President Mitterrand, would be a perfect companion for his energetic pursuits.

However, as a result of a car crash in Nigeria when he was a young banker, Britain's prime minister has a bad knee and cannot walk for long distances without suffering considerable pain. This was being quietly pointed out to the White House last week by British diplomats.

That leaves Mr Major with the option of the Bush motor boat from which the president fishes. The only snag is that the Commander-in-Chief drives his boat like a racing car - to the apparent consternation of another recent guest Japan's Toshiki Kaifu. Perhaps Mr Major should practise his swimming before he flies over.

### Word of mouth

Yet another directory of City stock brokers has landed on Observer's desk. A worthy tome from Streets Communications (price £55), it covers in excess of 1,000 analysts in over 60 firms. It notes that the only firm which declined to be included was Paribas.

### Kurdish revolt

Picture the scene. A group of Kurds, worried about being left defenceless, are preparing to demonstrate against the evacuation of a contingent of British troops from an airstrip somewhere in Northern Iraq. On the incoming flight is an intrepid British TV camera crew keen to breathe some media oxygen into the event. The troops will away their wait by agreeing to write some English language placards for the tribesmen's forthcoming demo. Plane arrives, cameras whirr. Cut to Kurds waving placards - "Say No to Poll Tax".

## GLOBAL GOVERNMENT PLUS FUND LIMITED

International Depository Receipts representing 100 common shares

### OFFER TO PURCHASE

The Board of Directors of Global Government Plus Fund Limited (the "Company") has authorized on July 29, 1991 an offer to purchase to 25% of the Company's issued and outstanding common shares (the "Offer"). The offer will be made by the Company to all registered holders of its common shares in accordance with the terms of the Company's by-laws. Under the terms and conditions of the offer, a shareholder wishing to accept the offer shall be required to tender all of his shares. The purchase price payable for each common share tendered and accepted by the Company for payment will be the net asset value of the Company on September 18, 1991 divided by the total number of issued and outstanding common shares.

- 1) deliver the IDRs with coupon number 38 attached, to Morgan Guaranty Trust Company of New York at the address indicated below, by August 22nd, 1991 and
- 2) send the following to the same address by August 22nd, 1991:
  1. a confirmation in the form imposed by the Company available at the address indicated below, completed and signed by the beneficial owner of the IDRs, declaring the owner in tendering all his shares and not less than all for purchase;
  2. An instruction containing all of the following items:
    1. An indication of the identity of the beneficial owner;
    - 2.2.2. payment instructions for the USS proceeds of the purchase;
    - 2.2.3. registration and delivery instructions for shares not purchased by the Company if the Company only purchases shares on a pro rata basis as described above.

Although IDR coupon number 37 will only be payable on September 9th 1991, IDRs holders accepting the offer will be entitled to their cash. If the shares are accepted for purchase, a service charge of US\$25 due to the Company as IDR commission fee of US\$10 per IDR and the expenses incurred by Morgan, Brussels, will be deducted from the proceeds.

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**M**rs Edith Cresson's first task when she became prime minister in May was to start stepping on toes and shaking up the terms of political debate.

# Newcomers hit by left, right, centre

Mrs Cresson has stirred up political hostility to immigrants in France, says George Graham

On one subject, at least, she has succeeded: immigration. Three months ago, the attention of government and opposition alike was focused on the series of violent uprisings in the crumbling housing projects of the blighted dormitory suburbs of Vanu-en-Velin, near Lyon, and Mantes-la-Jolie and Portouville outside Paris.

The issue was integration: how to bring the disaffected youth of these towns, often first- or second-generation immigrants with little education and fewer job prospects, into the French mainstream?

The answers ranged from a reform of local government finances, with the aim of redistributing FF500m (250.2m) of revenues from wealthy municipalities to their worse-off neighbours, to an emergency plan to build 1,000 football pitches and sports grounds in disadvantaged areas.



A crush of immigrants in Mice seeking to normalise their residency status; top, Edith Cresson

Today, the debate about integration has been dropped out by a noisier argument: how to keep out immigrants and how to clamp down on those who have settled in France illegally. In short, the terms of the political debate have changed: immigration has moved to the heart of the battle that will be fought in next year's regional elections and in 1993's parliamentary elections. Only Mr Jean-Marie Le Pen, head of the extreme right-wing National Front, has not changed tack; indeed, he has scarcely had to open his mouth at all, for the other parties have taken up many of his favourite refrains.

On the right, Mr Jacques Chirac, leader of the neo-Gaullist RPR, launched a crude trade against Africans, while Mr Gérard Longuet, chairman of the free-market Republican party, argued that the colonial policies of 30 years ago were right after all.

Chief among these is Mr Jean-Louis Bianco, minister for social affairs. "A precondition for the integration of legal immigrants is that they should not be this worry, this psychosis, often stirred up by politicians or the media, about illegal immigration," he says. In fact, there seems to be little evidence of a surge in immigration. In fact, the French statistical institute, says the number of foreigners legally resident in France has probably remained more or less stable over the past 10 years at about 3.6m, or 6.3 per cent of the population, although the proportion rises to 13.3 per cent in the greater Paris region. Mrs Cresson's French residents, however, have either a parent or a grandparent of foreign nationality.

Routine immigration, mostly of seasonal workers and family members of residents, brought 114,000 people into France last year. A further 13,000 refugees were granted asylum, of whom 10,000 asked for it.

socialists who were outraged by Mrs Cresson's comments. Nevertheless the presence in the government of Mr Bianco, whose commitment to fighting racism is beyond doubt, has soothed some qualms.

The socialists have received a slap in the face from the government," said Mr Jean-Marc Ayrault, the socialist mayor and MP for Nantes.

In terms of immediate popularity, the Cresson line may present some initial attraction, for opinion polls suggest that it is largely the wealthier and more intellectual supporters of the socialist party who are upset by her rhetoric - the "caviar left," as Mr Georges Frêche, the socialist mayor of Montpellier, called them in a defence of the prime minister.

Working- and middle-class socialist voters appear to be much more in tune with Mrs Cresson, as are the socialist elected officials of many high immigration areas.

## BOOK REVIEW

# Military tale with modern parallels

DEFENDING THE EMPIRE  
By Rhodri Williams  
The University Press, £25

**T**he British white paper published last month amid a remarkable amount of public debate, except for the anguish about the loss and amalgamation of some regiments. That is surprising because it is, after all, the first white paper in the end of the cold war and the first to outline a military strategy in British forces on the European mainland. And it is odd, at the least, that there was no outcry, even from the Labour party, about the lack of any obvious "peace dividend".

Yet as the economic strain of trying to keep up with the proliferation of sea power in the rest of the world became too great, the two power standard was frequently restated. The American navy, for instance, was omitted from the equation and it was tacitly admitted that the British would not be able to take on the Japanese in their own waters.

A dominant fact, of course, was the rise of Germany and the naval ambitions. After nearly a century of strategic isolation from the continent, the British navy was again seen as a military campaign in Europe. The future of the navy thus became just as important as the future of the army.

When we turn to the relatively high level of the debate, to the way in which emotions and sentimentalism were written into the text, Lord Selborne's "It is one of the very oldest institutions of the country, the oldest of the church and the monarchy. The history of my regiment goes back without interruption for 300 years." In the 19th century, wrote a best-selling novelist, "The Empire of 1910."

There were also some extraordinary arguments about the morality and desirability of compulsory national service in an open economy. An official report suggested that if you have the right to teach a lad the three Rs, you also had the right to teach him drill and basic military training in schools.

By and large, however, ministers were concerned with the enormous costs of military spending. Certainly on the Liberal side of the House, there was a desire to put more of the money into social reform. Even Prime Minister Asquith, who might have been expected to take a more hawkish view, went along with the defence spending to be con-

tained. On the opposition side, the Conservative leader Arthur Balfour managed to restrain the wilder elements in his party who wanted almost unlimited defence spending. Indeed it is the main thesis of the book that it was Balfour's co-operation with the government on defence matters that enabled moderate policies to be pursued.

This is a historical work, which is not to be taken too literally. Yet the modern reader must be struck by some parallels with today. There were ministers and military men away with their commitments. Many of them were aware that the country was already over-extended and would never meet all its commitments at once.

We have moved a long way since then: through two world wars and the system of post-war Europe. The argument that the defence was unduly neglected. Yet by 1990 - the latest white paper is called Defence for the 90s, suggesting a policy for a decade - the situation is surely different. Here, however, is a set of commitments that has hardly changed since the departure from east of Suez more than 20 years ago.

True, there will be changes in Germany and the ending of the Warsaw Pact. But for the rest Britain will continue to play a large role on the European mainland as well as defending the eastern Atlantic and the residual colonial responsibilities. Above all, there will be no appreciable fall in costs. The country will go on spending about 4 per cent of gross domestic product on defence, against 3.6 per cent for France and 2.9 per cent for Germany.

Two questions arise. What ever happened to the defence debate, and why has Britain persistently devoted more resources to defence than most countries? I suspect that the Treasury has been asleep and the debate merely delayed. Williams, meanwhile, has moved on from academic work to a job in the Foreign Office.

Malcolm Rutherford

## LETTERS

### Danger of blind faith in 'the money supply'

**From Mr Roger Bootle.**  
Sir, Recent discussion on your pages has given undue credit to the followers of monetarism. Anthony Harris (August 5) described the warning of the Liverpool Six who famously wrote to the Times in February as "prophetic". Presumably, he was referring to their fear of a deep recession. But they also warned of the difficulty of reducing interest rates within the ERM, and favoured a devaluation or even withdrawal from the system. Yet those of us who refused to sign the letter argued that rates could be reduced within the ERM. Rates have since been reduced by 3 per cent.

Moreover, you do not need to be a monetarist to have been pessimistic about prospects for recovery, nor even to be alarmed by current trends in the monetary aggregates. Economists in the Radcliffe tradition pay more attention to bank lending than money supply. At the moment, they are giving the same exceedingly grim message. This is where monetarists and non-monetarists can agree.

But if, as Tim Congdon (Personal View, July 31) advocates, the authorities under-funded the PSBR, this would lay bare the differences for it would show monetary growth while doing nothing (directly) to expand credit.

Monetarism worked, it would do so by lowering the long-term rate of interest and raising the market value of both gilts and equities. The real threat to recovery is the (understandable) scramble by both borrowers and lenders (belatedly) to heed the financial advice offered by Shakespeare some 400 years ago: "Neither a borrower nor a lender be. For loan oft loses both itself and friend... and borrowing dulls the end of husbandry" (Hamlet).

Economic recovery will require a revival of confidence and lower interest rates. Painful though it is, staying with the ERM discipline will help revival. By all means try a bit of under-funding, but let us not be led up the garden path, this time in hope of recovery rather than disinflation, by the same blind faith in "the money supply" which caused us so much trouble in the early 1980s.

### Liberalising a Brazilian market

**From Mr Jose Serra.**  
Sir, The article on the Brazilian computer industry (World Trade News, July 23) does not accurately reflect the content of the law the Brazilian Congress is about to approve. The new law will liberalise markets considerably. The market reserve will end after October 1992 and non-tariff barriers against computer goods will disappear. Tariff rates, which do not depend on that law, will be reduced. Foreign enterprises will have free access to products within the domestic market as well as nationally-owned companies; they will be able to have the same tax exemptions. The only tax incentive that is exclusive for the nationally-owned companies has to do with the possible 1 per cent corporate income tax deduction for capitalisation of Brazilian computer software prices. This incentive would last until 1998. It is a small incentive that would hardly attract foreign companies. Finally, the composition of the National Computer ("Informatica") Council will take up a more favourable open-door policy and increase liberalisation of the computer industry. Perhaps a more balanced analysis of the trends of the legal changes would have required broader sources of information.

**Jose Serra,**  
Congressional representative of Brazil,  
Camara dos Deputados,  
Sao Paulo, Brazil

### Airbus Industrie firm on support

**From Barbara Kracht.**  
Sir, Regarding your Personal View column ("It is unfair subsidies that keep Airbus flying", August 6), Airbus Industrie is surprised by the articles and statements in the press concerning discussions with the Gatt relating to the levels and nature of government support for the civil aviation industry.

Airbus Industrie believes the issue should be dealt with within the appropriate framework involving government representatives. It reiterates that all support made available by European governments has always been, and remains, consistent with the Gatt regulations. It also considers government support, including indirect US government support benefiting its US competitors, must be covered by the new rules under discussion.

**Barbara Kracht,**  
Airbus Industrie,  
1 Rond Point Maurice Bellonte,  
31707 Blagnac Cedex, France

### Water companies' dividends of real interest to regulator

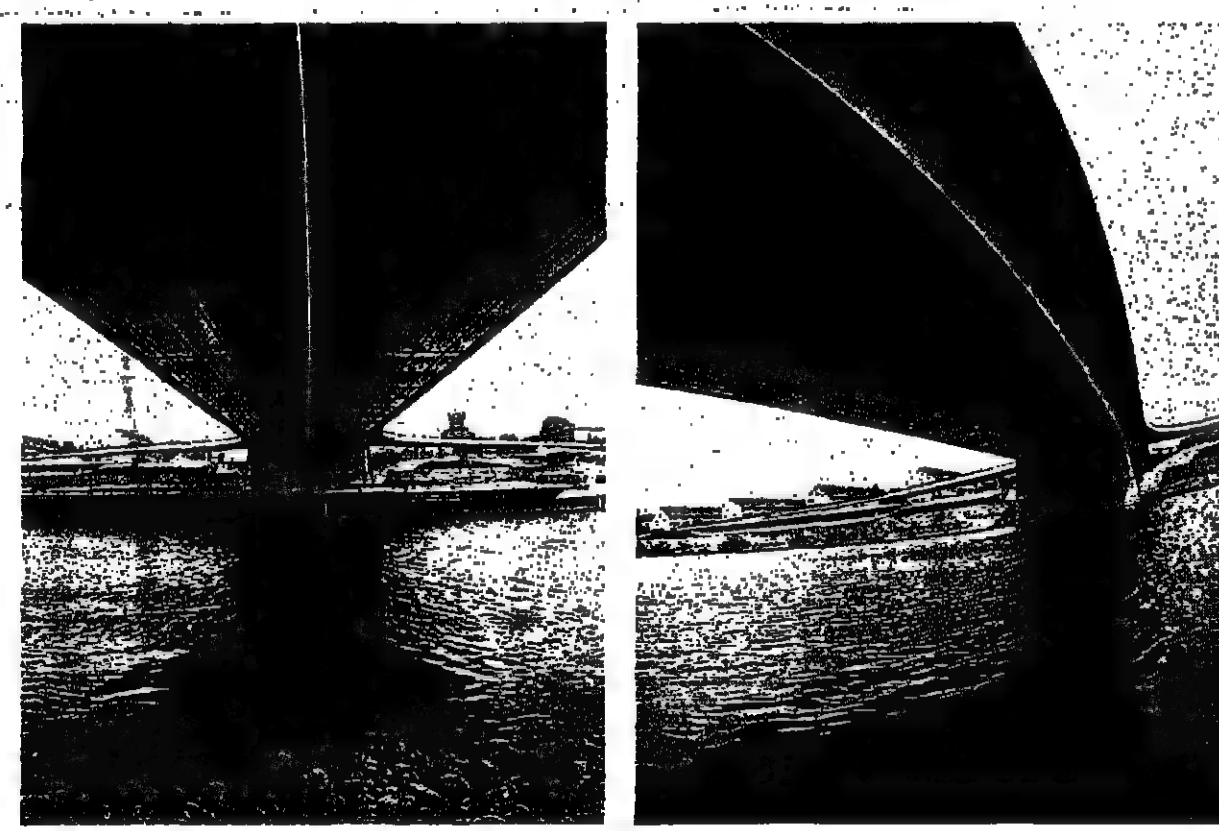
**From Mr Philip Chappell.**  
Sir, Mr Alasdair Macleod (Letters, August 2) is wrong to criticise Ofwat's consultation paper on Cost of Capital so far as it relates to dividend policy. Of course, the growth of shareholders' funds and the company's distribution policy is a matter ultimately for the shareholders; but the regulator, on behalf of the customer, does also have a real interest in that policy, if only because retained earnings provide a sounder base for gearing. Since borrowed money has a lower cost, the benefits of that increased gearing can flow through to the public in lower prices. It is for this reason that dividends and dividend cover are two of the eight key indicators which are set out in each company's licence.

Financial commentators have, perhaps inevitably, concentrated on Ofwat's comments on dividend policy; but they form only part of the wide-ranging Cost of Capital review. Customers, who are presently faced with price rises above the rate of inflation, will want to take a broader view. The proposed assumptions on the cost of capital are less generous than those assumed in the 1989 negotiations which led to the agreement on price rises over the next decade. If these assumptions are brought into effect either at interim reviews or the periodic reviews due in 1994, customers will want to know what the effect will be, in terms of reduced price rises. For customers as a whole it is £100m, more, per annum.

### Switzerland should remain an island - and different

**From Mr Alasdair Macleod.**  
Sir, As a Swiss who has lived mostly in his own country, may I comment upon the last point made by William Duffell in his article, "Angst in the Alps" (August 1). It would be truly a good thing for Britain, with its population of 55m, its internationally recognised language, and its important manufacturing base, to accept and influence the broader EC, despite the misgivings of a number of its politicians. But it could also be true that for Switzerland, with a population of 6m, schweizerdeutsch and a small manufacturing base, it would be a bad thing. Switzerland, with as much clout as a feather-duster, would become an appendage of Germany and lose its identity, alpenhorns, cuckoo-clocks and, more importantly, its neutrality. In a world of alliances, Switzerland would still remain an island where anybody and everybody could come and find a different and greener environment, a different viewpoint and, with luck, a country the world would not want to lose.

Monty Berchten,  
19 Elwood Gardens,  
Wagford, Herts.



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Farm co-operatives likely to be main purchasers from Treuhand banking consortium

## One fifth of east German land to be sold

By David Goodhart in Bonn

NEARLY one fifth of the land of Germany has been handed over to a German banking consortium which will try to sell it on behalf of the Treuhand privatisation agency. The Treuhand, which inherited 2m hectares of farmland and forest as well as German industry, has handed over 1.4m hectares to the consortium which will have responsibility for administering the land before it is sold.

The sale, likely to be largely to former members of farming co-operatives, or to the co-operatives themselves, will not be

simple. The co-operatives have no capital and the land is subject to a large number of claims from former owners which will have to be checked. Profits from the sale will be shared between the Treuhand and the banks in the consortium: Deutsche Siedlungs- und Rentenbank (Bonn), Deutsche Ausgleichsbank (Bonn), Landwirtschaftliche Rentenbank (Frankfurt) and Industriekreditbank (Düsseldorf).

Separately, the Treuhand emphasised that it was not interested in keeping jobs than maximising returns. Mr

Ludwig Tränker, head of the company closure department, said that the Treuhand preferred liquidation to bankruptcy as it made it easier to save jobs. So far the Treuhand has only liquidated two companies, causing the loss of 5,000 jobs.

The Economics Ministry in Bonn, in a positive report on the Treuhand which appeared in the end of the month, said it was in control of the organisation from the Finance Ministry.

The report stressed that not a single deal had fallen through because of problems with debt or with the legal liabilities of the German companies. These have also, generally, been shouldered by the Treuhand. The Ministry also said very few deals had fallen through because of problems associated with claims from previous owners.

The ministry rejected the claim that large companies were being favoured in the Treuhand's sale and said that two-thirds of the companies

sold had gone to small and medium concerns. Separately, the Treuhand was yesterday accused of contributing to the de-industrialisation of east Germany after it announced that Narva, the Berlin electric light factory, was to be sold to a consortium of Berlin property companies. Mr Haupt, a state secretary in the Berlin Labour Ministry, said he doubted the commitment to keep 1,050 jobs to the end of 1992 would be kept.

Banking money laws, Page 2

Banking money laws, Page 2

## Another one of those days

Whatever is sustaining the UK equity market at the moment, it is certainly not reported profits. Yesterday brought interim results from seven UK companies with a total of over £100m. The spread was fairly wide: an insurance company, an airline, a bank, two building materials companies and two engineers. A year ago they combined net earnings of £20m. The aggregate dividend payout fell by only 12 per cent, with the result that aggregate cover fell from 2.4 times to 2.2 times. In response, the market leapt to within 4 points of its all-time high.

FT-SE Index: 2,597.4 (+24.1)

Standard Chartered

Share price relative to the FT-A Banks Index



For the month as a whole

encouraging evidence from CU

on premiums. The outlook

remains patchy, but there is

reason to think that much-

improved risk increases as

commercial banks will not come

through in 1992. There is far

less reason to be optimistic

about claims, which are proving

the more difficult to control

than in the depths of the last

recession. Nor will other com-

panies - notably Sun Alliance

and Eagle Star - show much

encouragement from CU's

experience in the mortgage

guarantee business. On only

50m in premiums written it is

hard to see how it can be

more than a small part of the

market.

Two per cent of the market.

business travel. On the other hand, BA continues to attack its own base, its decision to put its South Wales base merely the fastest move in this front. Benefits will flow quickly to the airline when the return finally comes. It may also be that gloom about competition on the transatlantic has been overdone. American and United will be formidable challengers with their service records and US feeder networks. Though the market is bound to lose market share in the short term, the newcomers will revert to sensible pricing when they get into their long under-performing run some day, even though yesterday's figures do not look like calling the turn.

Standard Chartered

It is a standard view of the UK banking sector that there is little to choose between the two basket cases, Midland and Standard Chartered. Both have reported interim figures, and a comparison seems to be in order. In pre-tax terms, Midland's pre-tax loss is in gruesome contrast to Standard's 55 per cent drop in profits. The underlying picture in the other way round. Midland's profits have been hit by a 32 per cent drop in Standard's fell 7 per cent. Midland's costs fell by 2 per cent while Standard's rose by 16 per cent. Six months ago Midland's capital ratios were lower than Standard's. They are now higher.

The market is tempted to see both banks as recovery stocks, as shown by the 5 per cent rise in Standard's price yesterday and the 10 per cent rise in Midland's last week. In Midland's case, this week on the day the bank's interim figures were released, business will emerge in a shape as bad as it has ever been. In Standard's case, what will emerge is the business in Africa and the Far East, in Hong Kong in particular. However, Hong Kong, which contributed 55m to yesterday's total of 81m profits after bad debts, is not quite the UK high street in terms of political risk.

At yesterday's 50m, Standard's yield was 5.5 per cent historically and prospectively. For the dividend to grow, there must ultimately be growth in underlying earnings and no more underwriting. It is too early to be sure that Standard is capable of either.

## US on alert for release of Lebanon hostages

By Peter Riddell in Washington

THE US is preparing for the possible release of a Lebanese and an American hostage held by kidnappers in Lebanon. Mr Martin Fitzwater, the White House spokesman, said yesterday.

In contrast to previous

caution about releasing

western hostages, Mr Fitzwater

said the US had received "a

number of reports" from

diplomatic sources in the Middle

East and from the Swiss, which

had reported on "the rumour

of a hostage release".

The State Department has

arranged for a reception team

of medical and psychological

experts to go to Wiesbaden in

Germany, the site of a US base

where other hostages were

held after their release. The

team will fly out on a plane as

there is hard information.

Mr Fitzwater said that the

situation was "mainly just

and see. In preparation, we're

delivering an important message

to Mr Javier Pérez de Cuellar,

the United Nations secretary-

general, on the hostage

situation. The message

kidnapped Mr Terry Anderson, an

American journalist, in 1985 and his

photograph accompanied the

Islamic Jihad movement. Mr

Fitzwater said that the

hostage holders in Lebanon

had not yet released him. He

promised to report on the

anywhere, any time.

The US has been cautious

about recent reports of the

imminent release of hostages.

President George Bush

warned on Tuesday that

"hopes get raised and then

again. I do not want to

make any statement of any

kind that would contribute to

the concern of the families

involved".

Three rocket-propelled

grenades exploded in a UN

office in Beirut yesterday and

an previously unknown group,

calling itself the Organisation

for the Release of Prisoners' Rights,

said it had been behind the

attack in order to undermine

the UN's role in the

hostage swap for Arab

detainees held by Israel. No

casualties were reported.

Editorial Comment, Page 10

## Turkey sets up zone in Iraq to combat Kurds

By John Murray Brown in Ankara

TURKEY yesterday established a 100km buffer zone in northern Iraq as its ground and air forces pounded positions occupied by guerrillas belonging to the Kurdish Workers Party, PKK, in the south-east of Turkey.

The move to establish a

buffer zone follows a PKK

rocket attack on Sunday on a

Turkish army post near Erbil

in which nine soldiers were

killed and seven in the middle

of a big military incursion by

Turkish air and ground units

against PKK bases, which are

spread inside northern Iraq

during the Gulf war.

A defence spokesman

yesterday disclosed that 82

troops had been flown by F-4

and F104 fighter jets against

guerrilla bases in northern

Iraq. He also disclosed that a

commando regiment estimated

at about 2,000 men, had been

operating in northern Iraq

and was now in a camp at

Duql containing some

800-700 guerrillas. He con-

firmed that the PKK had been

had been destroyed and that

remnants had been strategic

positions.

The three-day operation

involves ground troops operat-

ing up to 100km inside Iraq in

an area to Turkey's border

with Iran and Iraq.

The Turkish operation has



been condemned by Iraqi Kurds who claim the Turkish

airforce is targeting civilian

settlements. A statement from

the Kurdistan Democratic

Party, called for allied forces to

intervene to stop the "indis-

criminate" bombing against

civilian targets.

The KDP said that 11

people were killed in a Turkish

raid on a refugee camp in

northern Iraq on Monday.

"We totally reject Turkish

claims that they are attacking

PKK bases. These statements

are motivated by displaced

Kurdish who are living in

northern Iraq."

Meanwhile, Mr Mesut Yilmaz,

the Turkish prime minister,

warned yesterday against a

regional power vacuum in

northern Iraq, and said the

LARA accuses Iraq, Page 4

## Executives seek sun, sea, sand and stress

By Michael Cassell in London

WHEN executives go on holiday they are quite likely to pack their dictating machines alongside the diarrhoea pills. The time, according to a survey published yesterday, finds it increasingly hard to switch off.

A study conducted by

British Airways, which

while none out of 10 US

executives believe holidays are

essential to help avoid "burn-

out", nearly half cannot

resist the temptation to

take work with them when

they escape from the office.

Their luggage is likely to

include a personal computer,

company files and a calculator

and most say the office knows

where to find them at all times

in the event of an emergency.

A high number constantly

call in from the bar or the

airline to be convinced that

the business can survive without

them. It is nearly always

likely the revenue per passen-

ger will be slipping much

less over the period than had

been feared. On the other

hand, a profit of 25m is really

rather than a loss of 25m for

a company as operationally

geared as BA. Business and

first class holiday makers

notably depressed in recent

weeks, and the July cargo and

passenger traffic figures also

on yesterday suggest the

going is getting tougher

over the summer months.

There is little reason why

BA should be optimistic at

this stage. Its major customers,

after all, are UK companies

which are tackling recession

not just by cutting payrolls

but by slashing overheads like

the future.

Commercial Union

On yesterday's evidence,

Commercial Union probably

deserves its reputation as the

best UK composite.

Thanks to its particular spread

of business and the growing

contribution from its life side,

a 50m first half loss will

almost seem commendable

once the current reporting

season is over. The problem

for investors is not for the

company's rating - a 5.5

per cent prospective yield com-

pared with more than 10 per

cent at Royal and GRE - and

how the progressive divi-

dend policy is storing up

problems for the future.

While most married

executives nominate their spouse

as the perfect holiday partner,

3 per cent admit they take off

with someone else, including

partners who are as calm, cool

and collected as they are

when they live together dramati-

cally.

There are potential

drawbacks in taking a break. Top

of the list is other people's

children. Many do their own

spring cleaning some criticism

desert, most would leave all

minors at home.

According to Hyatt, which

questioned 500 senior execu-

tives, they swap the pin



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Thursday August 8 1991

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## INSIDE

### Peugeot to withdraw from US car market

Peugeot decided to withdraw from the US car market after 30 years' presence - from the US market. The French carmaker cites a prolonged fall in sales, and by the current recession, the withdrawal. Page 14

### Standard Chartered falls 25%

Standard Chartered, the international banking group, saw its shares fall by 25 per cent yesterday. Pre-tax profits for the first half were £110m (£10m to £33m (\$142m). Page 11

### Heineken buys Hungarian stake

Heineken, Dutch beer group, has bought a 49 per cent stake in Hungarian brewery. Page 14

### Digital lines crossed

In the European mobile communications industry the market is king. But US manufacturers are phone companies are on the verge of a split on whether to use the digital cellular standard which could mean facing higher prices and possibly a switch from service to another. Data Bradshaw reports. Page 19

### Banks put own houses in order

Soaring bad debts will make it difficult in 1991 for banks to make a profit. Underlying factors are growth and cost reductions, however, suggest that the industry is finally coming to grips with long-running problems. Data Bradshaw reports. Page 18

### Sasib's strategic spread

Sasib, the Carlo Benedetti's (left) fast-growing conglomerate, has seen group sales rise from £1.1bn in 1989 to £1.9bn (£480m) last year. Thanks largely to small but significant takeovers, almost all financed by bank loans. Although the group's turnover is up, its profits are down. Page 14

### GKN pre-tax declines 52%

GKN, the automotive components, industrial machinery and engineering group, yesterday reported a drop of 52 per cent in pre-tax profits to £47.5m (£81.2m) for the first half of 1991. Page 17

### OCBC up 12% in first half

OCBC Bank, Singapore's oldest bank, lifted group first-half net profits 12.1 per cent to \$619.1m (\$589.6m). In the bank level, net profits were 16.1 per cent higher at \$2.1m against \$1.8m. Page 15

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### Chief price changes yesterday

FRANKFURT (DM)						
Alcatel	111	+	12.7	Lyons	524	+
Deutsche Bank	632	+	12.7	Peugeot	510	15
Hoechst	92	+	9	Peugeot	537	13
Volkswagen	222	+	8	Peugeot		
Wolfs	284	+	17	Peugeot		
Zenith	18	+	18	Peugeot	557	- 23
NEW YORK (\$)				TOKYO (Yen)		
Alcatel	39 1/2	+	2 1/2	Alcatel	111	+
Deutsche Bank	28 1/2	+	2 1/2	Bank of Tokyo	1380	+
Hoechst	32 1/2	+	2 1/2	Nippon Carbide	660	+
Volkswagen	18 1/2	+	4	Nitto Seleno	1949	+ 90
Wolfs	18 1/2	+	4	Peugeot		
Zenith	18 1/2	+	4	Peugeot		
PARIS (FFr)				LONDON (pence)		
Alcatel	672	+	15	Alcatel	601	-
Deutsche Bank	15	+	15	TDF	560	- 35
Hoechst	15	+	15			
Volkswagen	15	+	15			
Wolfs	15	+	15			
Zenith	15	+	15			

## Chrysler plans \$400m share offer

By Martin Dickson in New York

CHRYSLER, the US car manufacturer, yesterday announced plans to raise \$400m through a public offering designed to strengthen its balance sheet, bolster its depleted treasury and help its credit rating.

The offering is a major test of market confidence in the company and the US auto industry as a whole. Chrysler, the maker of the Big Three American manufacturers, has been badly battered by the US recession but recently expressed cautious optimism about its future.

The move is also an embarrassment to Mr Lee Iacocca, Chrysler's chairman, who has been accused of a large share buy-back programme by the Securities and Exchange Commission.

Chrysler spent \$1.1bn buying back shares at an average price of \$21.13 - above the level at which it can now raise new money.

The company's stock was trading at \$12.40, down 54 per cent, on the New York Stock Exchange at lunchtime yesterday.

Chrysler plans to raise \$400m in new shares to the public - of them in the US and Canada and a further \$5m in an international offering.

Lee Iacocca (left), Chrysler's chairman, sees a bright future for the company, the question is whether Wall Street will take the same view

## Gearing up to drive away from recession

MR LEE IACOCCA, chairman of car manufacturer Chrysler, has a well-deserved reputation as one of America's most successful salesmen. This autumn he will need all his persuasive skills to convince international investors to buy a large tranche of new Chrysler stock.

For Chrysler, which announced yesterday that it intends to raise some \$400m of new equity in a public offering, hardly seems a daunting task.

Only last month it announced a first-half operating loss of \$553m (\$100m) and is regarded on Wall Street as financially stretched that its credit rating was downgraded to junk-bond status earlier this year.

The company's equity injection to bolster its balance sheet, stabilise its credit rating and raise up its reserves of cash, which have been severely depleted by the US recession.

But as he sets out to woo investors, Mr Iacocca is likely to strike a surprisingly optimistic note about the company's prospects.

For over the past few weeks the car industry has been emerging from Chrysler's Detroit headquarters has been that, after months of financial bickering, the company can see some hope for the future.

An upturn in the US economy will stabilise its finances and a new range of cars, due out in autumn next year, will transform its prospects.

Wall Street, however, is going to take a great deal of convincing. All of the Big Three US manufacturers - General Motors, Ford and Chrysler - have been hit hard by the US recession.

But Chrysler, the smallest of the three, has been particularly vulnerable, because it lacks the resources of GM and Ford - nor does it have the large operations which have helped them survive the downturn.

Chrysler does at least deserve credit for taking protective action against recession well before its competitors. In 1989 it started selling off peripheral businesses, such as its insurance operations, and drawing up a cost-cutting scheme designed to save \$25m out of its cost base.

The cost cutting has been a major factor helping the group to weather its most serious recessionary crisis. A liquidity crunch, it was said, the downturn last summer with solid reserves of cash, over \$4bn. By the end of March the total held by its car operations was \$2.5bn, but by the end of the quarter that had improved to around \$2.4bn.

However, the third quarter is traditionally a period of heavy cash outflow, when manufacturers sell their plants to produce new models. The equity offering would relieve pressure on the company's cash.

Chrysler's new models is the LH group of mid-range vehicles which will start rolling out in autumn 1992.

Mr Steve Miller, the company's vice-chairman, forecasts the LH will be a "hot product" comparable in importance to the Taurus, whose radical lines transformed Ford's fortunes in the mid-1980s.

"I think it will dramatically change the image of Chrysler and spill over into the rest of the product line."

Chrysler has little or no money on the cars side of its business (so any LH contribution will be a bonus), with the bulk of its profits coming from two other areas, mini-vans and sports utility vehicles.

They will face two other big unknowns. One is for how long Mr Iacocca, who will be 67 in the autumn, will remain chairman and who will replace him.

## Dollar survives US rate cut

By Patrick Harverson in New York and Rachel Johnson in London

THE SURPRISE easing of US monetary policy by the Federal Reserve on Tuesday might have been expected to inflict further damage on a dollar already bruised by a sluggish US economic recovery and weaker expectations of higher German interest rates.

Yet the US currency's resilience in the face of the Fed funds rate cut - it fell by less than a penny from 7 1/8 to 7 1/4 per cent - the D-Mark when the news was announced and rose yesterday - suggests the dollar's ability to survive may have run its course.

Although the consensus in foreign exchange markets is that the dollar will not rise much over the coming months, it is not expected to weaken further either. For the moment, the dollar is still the world's most important currency.

One factor that could upset the dollar. If the Bundesbank decides at its council meeting next week to raise either the discount or official Lombard money rates by as much as one percentage point, the dollar could come under renewed selling pressure and fall through DM1.70.

The chances of a tightening are thought to have increased since the accession of Mr Helmut Kohl to the German presidency.

He has hinted that he would like to tighten, while a fellow Bundesbank council member yesterday called for an increase in the discount rate, on the grounds that the current rate of 6.5 per cent provided too much of a subsidy for banks.

## BA falls to £9m in first quarter

By Paul Marshall in London

BRITISH AIRWAYS yesterday defied the twin curses of war and recession to report a pre-tax first-quarter profit of £9m (£15.4m).

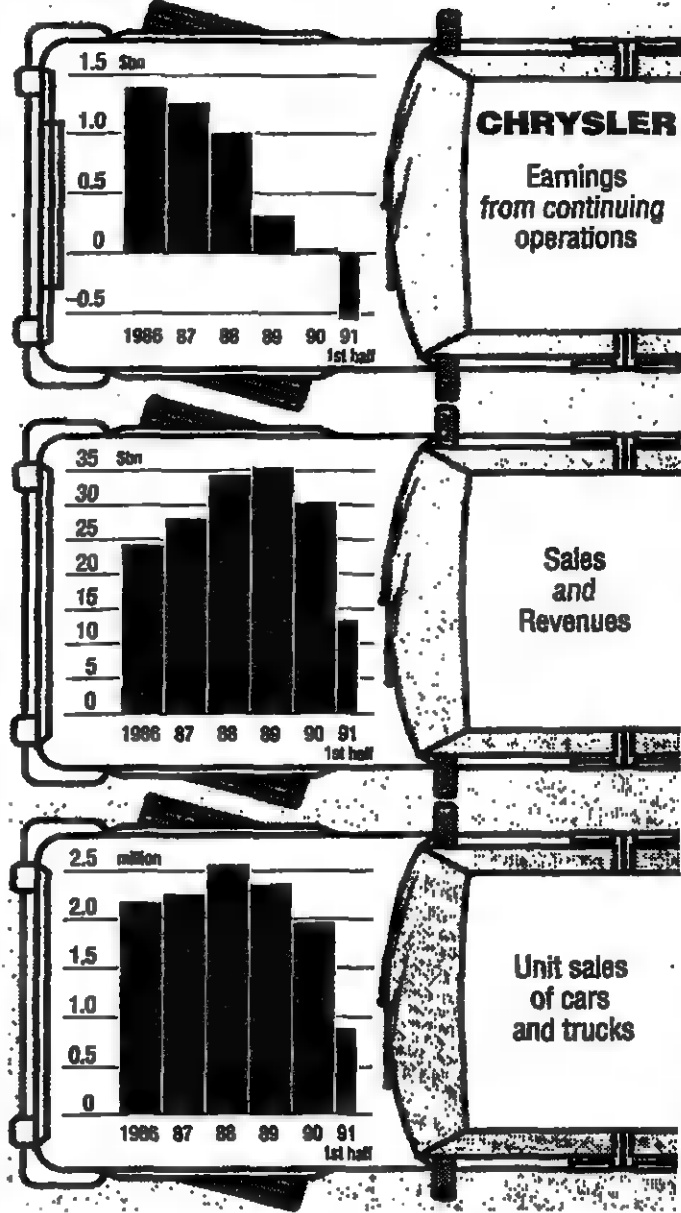
The results to June 30 compare with profits of £166m last year but were better than most European and North American airlines which have fallen into the red.

The group's share price rose 18 1/2p to £1.83p in the results.

Analysts described the results as "impressive" given the state of the industry. They welcomed BA's return to control of its £1.18bn, an £11m increase on the same period last year.

The amount passengers pay for their seats - bad weather held up well, said analysts. They fell 0.6 per cent in spite of a

Lord King, chairman, said the results were better than forecast at the end of the last financial year. However, he warned: "Business remains difficult with no further improvement in traffic relative to last year anticipated in the second quarter."



## French to take over seized US insurer

Nikki Tait in New York and George Graham in Paris

A CONSORTIUM of French insurers, including MAAF, a large mutual insurer, has agreed to take over the business of Executive Life of California (ELIC), the insurance company seized by US regulators in April.

Under the deal, much of ELIC's large junk bond portfolio would be acquired by Finance, part of the Credit Lyonnais banking group, for \$2.7bn. This money would then flow into the French insurance business.

Announcing the details of the transaction yesterday, the Californian insurance department said that it would probably only provide ELIC policyholders with about 81 per cent of the cash value of their policies.

Under the agreement with the Californian insurance department, the French consortium would make a \$300m capital infusion into ELIC insurance business, creating a California-based, shareholder-owned life company. The new insurance company would be unable to hold more than 10 per cent of its assets in junk bonds, and would hold no property investments.

Alins would buy most of the junk bonds held by ELIC for \$2.7bn while certain other assets - including some real estate and with a book value of some \$680m - would go into a "liquidating trust" which the insurance department will operate, with the disposal being the aim.

When the regulators moved ELIC, the larger of the two main operating units in the First Executive life insurance group, last April, it had 170,000 life insurance policies outstanding worth 75,000 annuity contracts. At that stage, ELIC - with assets of \$10.1bn, of which \$6.4bn was invested in junk bonds - was the largest-ever US insurance collapse.

MAAF is the second-largest mutual insurance company in France with premium income of FF7.5bn (\$1.1bn) last year, and number two in the French reinsurance market.

It is backed by some of the best-known independent investment funds in France. Pallas, headed by Mr Pierre Maréchal, chairman of the Pallas Investment bank; Euris, under Mr Jean-Charles Naouri, formerly chief adviser to Mr Pierre Maréchal; and Maréchal Investissements, led by Mr Georges Feherman, ex-chairman of Compagnie Générale d'Electricité.

This announcement appears as a matter of record only.

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**BARINGS**

July 1991



## INTERNATIONAL COMPANIES AND FINANCE

## Heineken acquires 50.3% stake in Budapest brewery

By Ronald van de Krol in Amsterdam

HEINEKEN, the Dutch beer group, has made its first foray into Europe with the purchase of a 50.3 per cent stake in a Hungarian brewery.

The Komarom Sörgyár brewery, which is located in Komarom, near Budapest, will be used for the local production of the Heineken group's Amstel brand of beer.

The Dutch company already exports its flagship Heineken brand to Hungary from production sites in the Netherlands. Local production facilities will enable Heineken to get around import quotas on foreign beers.

Because of these restrictions, its sales of Heineken are a modest 700 million per year.

"We estimate that the [Hungarian] market, like in other European countries, will be segmented by an increasing number of beer brands and types," said Mr Gerard van Schaik, the chairman of Heineken. "We

know that consumer demand for international quality beers will increase in Hungary in the future."

Heineken declined to give details of the transaction, which involves the purchase of part of the brewery's existing capital from an agricultural co-operative and the taking up of a 53 per cent capital increase.

The remaining shareholders include several co-operatives, oil companies and a minority of the Hungarian population. The brewery was only 10 years old, meaning that it will require investments for modernisation or rationalisation.

However, the brewery will give the brewery a strong financial base for expansion of its production capacity in the near future, Heineken said.

"Heineken is keen to enter the Hungarian market and the reason why we were interested

in establishing co-operation with Komarom was because of its capable management, the good condition of the brewery, its modern and efficient infrastructure, and the good reputation of [its] beers," Mr van Schaik said.

The Komarom brewery, one of the largest in Hungary, currently produces 1.5 million hectolitres of mainly regional beers, giving it a 22 per cent share of the country's beer market.

Heineken said the Hungarian company, which employs 200 people, had annual sales equivalent to £1.2m (£10.3m) and was profitable. As in the case of Germany - a country in which Heineken has yet to make an investment - Hungary has a flourishing beer culture characterised by strong regional loyalties and traditions. The brewery's four brands are Talleros, Matros, Aranyteller and Kapszeiter.

## Peugeot to pull out of US sales fall sharply

By Kevin Done, Motor Industry Correspondent

PEUGEOT, the French car maker, has decided to withdraw from the US, the world's largest single car market, in the face of a prolonged fall in sales after more than 30 years in the American market.

Peugeot's sales in the US had dwindled to only 4,261 last year from 6,010 in 1989 and a peak of 20,807 in 1984.

The company has been present in the US since 1958.

European car makers operating in the American market have been hit hard by the prolonged recession in US car sales.

They are also facing increased competition from Japanese car makers, which are moving aggressively into the luxury and executive car sectors, where the European car makers have previously been most successful.

Peugeot had been planning to increase its presence in the US in the top-of-the-range 605, which was launched in Europe in late 1989, to re-establish the company firmly in the executive car market.

Mr Pascal Hénault, president of Peugeot Motors of America, has informed the company's 151 US dealers this week, however, that Peugeot has decided to abandon its plans to export the 605 to America.

He said the decision had been taken "in light of the depressed state of the US market for European luxury models and of the future prospects of international competition in this market segment".

He said that Peugeot had also decided that it was necessary to "focus resources on the new European unified market of 1993".

Peugeot's range in the US in the last couple of years has largely been limited to the 405 large family car, first introduced in 1988.

The 405 has never proved a success in the US, however, and Peugeot has also decided to stop 405 production for the American market.

Mr Hénault said it was impossible to operate a car sales organisation in the US with a single car line.

## Third leg brings balance to Sasib

Haig Simonian reports on the Italian company's expansion strategy

Sasib, one of the most successful of the many conglomerates of many conglomerates, is suffering from a lack of balance in its three core businesses - food processing and packaging equipment, railway signalling electronics and tobacco machinery - such a spread of interests has left it out of favour with analysts.

Buoyed by a string of significant takeovers, almost all of which have been financed by cashflow, the Italian group's sales have soared from £165m (£132.8m) in 1985 to £619.7m last year.

About 71 per cent of turnover stems from abroad. This year, plants outside Italy should account for about a third of group sales.

Sasib's rush to expand has not come at the expense of earnings. Net group profits rose by 16.6 per cent to £70.2m last year, while dividends on ordinary stock have risen steadily to £200 a share last year from £175 in 1988.

It is the strategic thinking behind Sasib's takeovers that distinguishes it from dozens of light engineering counterparts dotted around Bologna. For while Sasib's takeovers have made it a regular stop for mergers and acquisitions men, its growth has been far from haphazard, says Mr Gian Carlo Vaccari, its chief executive.

The group has been building its origins in the early 1980s as a manufacturer of cigarette-making machinery.

Although its sales are concentrated in very different areas, the underlying expertise of

manufacturing precision equipment is similar, he explains.

Restructuring began in 1985, when the group acquired the Italian tobacco machinery company, which bought from the Italian tobacco industry.

Until then, cigarette machinery and railway signalling were Sasib's bread and butter. While tobacco was a leading producer of cigarette-making machines, the western market was already mature.

Railway signalling has greater potential. But, until the Italian state railways are

solidated, the group's "first objective". But "we're still very interested in acquisitions", he says. "There has been a concentration in foods especially, but there are still companies in Italy and abroad which could be good targets for us."

The continuing aim will be to reduce the role of cigarette-making, internationalise the railway signalling business, and expand food processing and packaging activities.

Even without many takeovers, Sasib will have plenty on its plate. Although accustomed to turning round companies, restructuring GRS will prove its biggest challenge yet.

Mr Vaccari will not reveal how much the purchase cost, nor how much Sasib may have to invest. But he admits GRS was not making money when Sasib

took over. Restructuring costs will affect 1991 earnings, which have already been depressed by slower first-half demand in many markets. Net profits for the year are likely to remain static.

Longer term, Sasib may also have to pay more attention to cigarette machinery. The tobacco industry does not face an inevitable downturn in consumption slumps, says Mr Vaccari, but the fall in smoking will oblige tobacco companies to invest in more productive, more modern machinery.

With a reported 28 per cent fall in Sasib's sales of tobacco processing machinery in the first four months of this year, further expansion in cigarette making is unlikely, he admits.

In April, the group consolidated its railway activities by taking full control of Luxi, an Italian railway electrification specialist.

But, but as all of Sasib's acquisitions will be reflected in turnover, the group should rise to "well over" £700m, according to Mr Vaccari. Further takeovers will show through in 1991 when full-year figures for GRS and Luxi are consolidated.

Mr Vaccari predicts that takeovers this year, will continue to be a key part of the group's expansion strategy.

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## America West poised to shed 1,500 jobs

AMERICA West, the struggling US airline which filed for Chapter 11 bankruptcy protection in late June, has said that it might shed 1,500 jobs as it attempts to reorganise its affairs, writes Nikki Tait in New York.

The Phoenix-based airline said the first jobs to go would be those related to activities which are being pruned, but that all departments would be asked to find cost savings during the next few months. It anticipated that the job cuts would take effect over the remainder of the year.

America West, one of the non-union carriers which started operating following deregulation of the US industry, employs 15,000 people.

It recently announced a large second-quarter loss and unveiled a cost-saving programme, designed to reduce expenses by \$100m a year. The airline then said it expected to cut to around 115 aircraft in 1991 and 100 for the rest of the year.

## Commercial Union turns in £26.3m halfway loss

By Richard Lapper in London

COMMERCIAL Union yesterday reported a £26.3m loss in the first half of 1991, a likely to be a miserable reporting year for the UK composite (life and general) insurers, by reporting a pre-tax loss of £26.3m for the first six months of 1991.

At the same time last year, CU posted a profit of £16m and the only one of the UK's leading composites to do so in the first half of 1990.

In spite of the loss, the group increased its interim dividend to 9.25p (9.00p) per share, a decision said Mr Tony Brend, chief executive, defended on the grounds of CU's underlying financial strength, its profitability of the business - which accounts for about a third of total premium income - and confidence in the longer-term prospects for the group's non-life business.

During the first six months, shareholders' funds rose by £135m to £1.37bn, an annual life premiums rose by 24 per cent and life profits by

27 per cent, while non-life premium income rose to £1.1bn from £1.34bn.

Sizeable underwriting losses in the UK were the most noticeable feature of the results. The loss rose to £11.2m compared with a loss of £5.2m in the first six months of 1990 and a surplus of \$9.9m in the first half of 1989.

Last year's result was also affected by the impact of claims arising from the fire of January 1989, which caused a sub-total loss of £18m, but most of the damage was done by theft and fire claims.

According to Mr Paul Ward, general manager for the UK, the cost of these claims rose by more than 10 per cent.

Arson caused at least 10 per cent of industrial fires, with underwriting losses from these rising from £2.4m to £1.1m.

The recession has also caused a sharp rise in losses in mortgage guarantee insurance. In this area, CU had only a 1 per cent net result in the first half of 1991.

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## Ares-Serono advances 5% to \$31.5m midway

ARES-SERONO, the Swiss-based pharmaceuticals group which specialises in human fertility and immunological drugs, yesterday reported a 5 per cent increase to \$31.5m in first-half earnings, equivalent to \$68 per share, writes William Doolittle in Geneva.

Pre-tax earnings increased by 8.7 per cent to \$31.5m compared with the first half of 1990. Profit growth has been limited by the advance in turnover in 1989 mainly because of increased spending on research and development in the investment in a new immunoassay system by

the diagnostics division.

Research and development spending in pharmaceuticals was 31 per cent higher than in the first six months of 1990, Mr May, Mr Paul Bertarelli, chief executive, forecast that overall research and development would reach \$131m for the year as a whole.

Profit performance improved between the first and second quarters. Pre-tax income rose by 14 per cent during the April-June period compared with the 2 per cent increase in the first three months. The group said in May that

for the year as a whole it was aiming for a net profit above \$70m compared with the \$63.6m posted in 1990 and an increase in sales to \$800m from last year's \$653m.

Last year Ares-Serono, which is listed on the Swiss stock exchanges, paid a dividend of \$1.65 (\$16.5) per bearer share and \$F10 per registered share after posting a 2.1 per cent advance in net earnings.

The group has an operating headquarters in Boston, US, and 20 subsidiaries and plants in 20 countries.

For further information please contact: S.G. Warburg & Co. Inc., 105 City Street, London EC3N 8JF. Tel: 071-252 2323, Fax: 071-252 2324.

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## INTERNATIONAL CAPITAL MARKETS

## Sultanate of Oman taps the market for \$300m

By Sara Webb

THE Sultanate of Oman has borrowed \$300m in the syndicated loan market through Bankers Trust and J.P. Morgan & Co. The bank, which recently arranged a huge syndicated loan for Saudi Arabia, is believed to be the main arranger of the five-year, \$300m loan against tough competition, at a time when some banks are wary about lending in the Middle East soon after the Gulf war.

The Sultanate of Oman tapped the international credit market in 1990, when Chase Investment Bank and Gulf International Bank were arrangers in a \$200m eight-year loan.

The latest deal for Oman is believed to be priced at a margin of between 1% and 1.5% on the London interbank offered rate (Libor), the floating benchmark used in the international borrowing market. Neither J.P. Morgan nor Bankers Trust would comment yesterday.

J.P. Morgan recently arranged a \$450m three-year syndicated loan for Saudi Arabia, which was well received, particularly if some of the Japanese banks participate.

One Japanese bank, however, remains a difficult one for which to raise funds, given the political uncertainty following the Gulf war and the recent scandal surrounding the Bank of Credit and Commerce International (BCCI), the Abu Dhabi-controlled bank.

Chase Investment Bank, which launched a \$100m facility for Aluminium Bahrain in June, is facing difficulty in raising the money which is intended to help with the upgrading of plant.

## US group to launch Spanish trust in UK

By Sara Webb

ALLIANCE Capital Management, one of the leading US fund management groups, is planning to launch a Spanish smaller companies investment fund on the London Stock Exchange.

The fund will invest in Spanish companies which have a market capitalisation of \$200m or less (about \$250m or less in sterling). It will be managed from Luxembourg and will be wound up after 10 years.

An application has been made for a listing on the London Stock Exchange. The fund may be quoted in Madrid at a later stage.

Daiva Europe, the international arm of the Japanese securities house, and Banco Vizcaya (BBV), the Spanish bank, are jointly responsible for allocating the fund to international investors.

Daiva said the fund was being launched because "there are many small companies in Spain with a very high growth potential".

Argentine back with \$100m bond

By Cristina Bonassera in Buenos Aires

ARGENTINA is planning to return to the international capital markets after a nine-year absence, with a \$100m bond issue via J.P. Morgan.

The Argentine authorities regard the notes as a "case" to measure international interest in the country's debt.

The bonds, which will have a life of two years, with a put option after one year, will pay a coupon of 11 per cent.

## Treasuries mixed in front of sale

By Patrick Harverson in New York and Sara Webb in London

US government bonds were mixed in light trading yesterday morning as the market prepared itself for the afternoon sale of 10-year securities.

By midday the 30-year Treasury issue was down 1/8 at 98 1/2, yielding 8 1/2 per cent. In contrast, the two-year note was up 1/8 at 100 1/2, yielding 6.52 per cent.

The excitement after Tuesday's unexpected easing of monetary policy by the Federal Reserve has dissipated by the start of trading. Attention has shifted to the sale of 10-year notes, the latest part of the Treasury's huge quarterly refunding programme.

Dealers were concerned that recent Treasury demand for government bonds may have been met during the recent bond sale rally.

The yield on the 10-year note yesterday to 100 1/2 was a possible indication that demand for the paper might be met during the sale.

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	Country	Face Value	Price	Yield	Change	High	Low	Open	Close
AUSTRALIA	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
BELGIUM	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
CANADA	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
DENMARK	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
FRANCE	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
GERMANY	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
JAPAN	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
NETHERLANDS	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
SPAIN	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
UK GILTS	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
TREASURY	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00
	10.000	100.00	100.00	10.00	11.00	100.00	100.00	100.00	100.00

London closing, "denotes New York morning session. Yields: Local market standard. Source: Reuters. Data: FTAS Price Service.

TUESDAY'S easing of monetary policy by the US Federal Reserve led to a rally in Japanese government bonds, although the market closed lower in Tokyo yesterday.

The 129 benchmark JGBs rallied to yield 6.48 per cent, up from 6.45 per cent on Monday.

The benchmark 11% per cent gilt opened at 111 1/2 and traded at 111 1/2 by late afternoon.

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## Frankfurt SE orders new trading system

By Katharine Campbell in Frankfurt

THE FRANKFURT stock exchange has commissioned McKinsey, the international management consultants, to design a more advanced electronic trading system (EHS).

McKinsey, which will design the system, will look at systems already in place abroad including the CAC system in Paris and the Euronext system in Amsterdam.

The eight regional stock exchanges in Germany are in the process of merging to form a single exchange.

The EHS, a Frankfurt project, is the big bang of the big bang, as it is called by the exchange's members.

It is a threat to the existing system, which is based on a computerised trading system, but it is also a threat to the existing system.

April, a primitive computerised trading system, is still in operation for 30 blue chip stocks and certain fixed income securities.

## Liffe set for options trading on screen

By Tracy Corrigan

THE board of the London International Financial Futures Exchange (Liffe) has agreed to develop a trading system for options.

The system will be developed in three stages. Firstly, as a simple automated trading system, then as a system which can be used by individuals.

Secondly, as a system which can be used by individuals, and finally, as a fully automated trading system which can carry out a range of functions.

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UK COMPANY NEWS

Further jobs may go as GKN dives 53% to £48m

By Kevin Done, Motor Industry Correspondent

GKN, the UK automotive components, industrial and defence group, yesterday announced a drop of 53 per cent in pre-tax profits to £48m for the first six months.

Sir David Lees, chairman, warned that there continued to be no hard evidence of an improvement in current recessionary conditions in the various markets in which we operate.

He said that it was unlikely that there would be any upturn in the UK economy before the end of the year.

Prospects in the US were "possibly a little brighter", but demand in continental Europe was "rather weaker".

The company has announced some 2,600 redundancies in the last 18 months - of which close to 2,000 have been in the UK - and Sir David said that several hundred additional jobs may be cut in the second half of 1991.

The profit compared with £100m in the first half of 1990, when group turnover of £2.4bn was down by £18m. Earnings per share fell from 7.8p to 2.8p.

In spite of the steep profits fall, the interim dividend is maintained at 5p and the share price yesterday gained 11p to close at 345p.

David said that GKN's focus was on reducing its cost base and on improving cash generation.

GKN's share of profits from associated companies fell from £30.1m to £14.2m, with the biggest reduction coming from the 38.1 per cent-owned joint venture with British Steel, where demand has continued to weaken.

Trading in the first half of 1991 was the first half of GKN's automotive and engineered products division were down by £10m (£55m).

The company has been hit by the weakness of the European commercial vehicle market, the lower level of sales of tractors and agricultural implements, and the steep fall in luxury car sales by UK car makers, most significantly Jaguar.

European commercial vehicle production was 9 per cent lower in the first half of the year from the already depressed levels of 1990. The 27 per cent fall in UK commercial vehicle production in the first six months had forced substantial restructuring at the company's heavy engineering plant at Kirkstall, Leeds.

Turnover in the first half of 1991 was down by £10m (£55m) from £1.1bn in the first half of 1990. The 27 per cent fall in UK commercial vehicle production in the first six months had forced substantial restructuring at the company's heavy engineering plant at Kirkstall, Leeds.

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Sir David Lees: response to the recession had been to reduce cost base and generate cash

Japanese threaten to drop bid for Thorn unit

By Susan Wagstyl in Tokyo and Michael Skapinker in London

HAMAMATSU Photonics, a Japanese company planning to buy the light sensing business of EMI yesterday warned that it might withdraw following the bid's referral to the Monopolies and Mergers Commission.

Mr Tetsuo Hiruma, president, said he would cancel the acquisition if the MMC probe "disturbed the deal".

The company could not afford to lobby the British government or to incur huge legal costs.

Hamamatsu is the first Japanese company to have a proposed bid for a British company. Japanese groups are usually extremely sensitive about incurring criticism from the authorities and avoid controversial moves for fear of prompting public criticism.

The bid was surprised by the referral of the bid, which was announced on Tuesday by Mr Peter Lilley, the Trade and Industry Secretary.

Mr Lilley said the MMC would look at the bid's effect on the market for photomultiplier tubes, in which Hamamatsu is a world leader. The bid also raised questions about the company's heavy engineering plant at Kirkstall, Leeds.

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38% shortfall at Heywood Williams

By Andrew Taylor, Construction Correspondent

HEYWOOD WILLIAMS, the UK's largest construction distributor, blamed the deep recession in the construction industry for a 38 per cent fall in pre-tax profits, from £13m to £8m, in the six months to end-June.

Sales dipped from £168.8m to £166.5m. Earnings per share fell from 14p to 7.7p, adjusting for the £22m rights issue in March.

The interim dividend, on the enlarged capital, is again 4.5p. Some of the rights issue cash had been used to acquire Thurgar Baxter, the Kettering-based manufacturer of windows and doors, for which Heywood last month launched a hostile £2.8m bid.

Mr Ralph Hinchcliffe, Heywood's chairman, announced yesterday that the bid was unconditional on Tuesday after the company had increased its stake in Thurgar to 54.54 per cent.

Thurgar last month dismissed Mr Cliff Nye, its chief executive, after the Nye family trusts had agreed to sell their 17.7 per cent stake to Heywood.

Group borrowings following the purchase of Thurgar had increased to about £15m, equivalent to less than 14 per cent of the company's £106m of assets.

Mr Hinchcliffe said it was a good time to make acquisitions in the housing market at the bottom of a three year slump. He said: "We will recover although it is more likely to be next year than this year."

He expected the group to make further acquisitions although it had nothing specific in mind at the moment.

The half year's profits had been further reduced by provisions for bad debts which had increased from £1.1m to £1.7m, and by a provision of more than £500,000 to cover reorganisation and rationalisation costs.

More than 300 jobs have been axed in the UK, representing almost 1 per cent of the labour force.

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per cent of turnover is generated in the UK; of this only 13 per cent comes from outside the building industry through car windows. Life, therefore, is likely to remain tough for the group for some time yet. The largest area of sales, however, is for replacement windows for homes which is likely to be one of the first to come out of recession. According to Heywood it has already seen a slight pick up with sales ahead an estimated 5 per cent since February. By comparison its commercial building is low. Profits for the year may slip to about £15m, compared with £23.1m in 1990 and £31m in 1989. Worth a buy if you believe the housing market will pick up by next year.

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Costs of restructuring push Wickes £12.9m into the red

By Michio Nakamoto

WICKES, the heavily-borrowed DIY retailer and timber group, plunged into loss in the first half as recession and the high cost of restructuring its timber businesses took their toll.

In the six months to June 30 the group's pre-tax loss totalled £12.9m compared with a profit of £6.09m last time.

Turnover dropped to £1.1bn (£1.1bn) from £1.2bn (£1.2bn) in the first half of 1990. However, the group, which launched a £42.6m rights issue in February, reduced borrowings by £6m since the issue and to £11.5m to £9.7m.

The lower borrowings, which were at £11.5m at the time of the company's ill-timed acquisition of Timber Timber in 1988, reduced interest charges from £1.5m to £0.7m.

The shares responded by rising 5p to 47p.

Wickes' loss was concentrated in the first quarter when it suffered a £14m loss as the effects of recession exacerbated what is normally a difficult period for the timber business. This was offset by a resilient performance in the second quarter when Wickes managed to pick up more business by gaining market share.

The group's new DIY retail business performed well throughout, and Mr Henry Sweetbaum, chairman and chief executive.

The timber businesses improved sales and margins in the second quarter after a restructuring programme was virtually completed during the first quarter.

Mr Sweetbaum warned, however, that the group did not expect to achieve a profit at the pre-tax level this year as to propose a final dividend.

No interim dividend was declared. Losses per share were 5.8p against earnings of 2.5p.

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WB raises £3m as losses mount

By Peggy Hollinger

SHAREHOLDERS of WB Industries, the loss-making engineering group, will see their stakes heavily diluted as a result of a £3m placing and offer announced yesterday.

The company said it was in breach of its borrowing powers and had launched an open offer, rather than rights issue, to get cash as quickly as possible.

Mr Bernard Little, chairman, said that in view of the group's serious financial position, it would not currently be possible to underwrite the market for equity issues at a price in excess of the share price.

WB has also conditionally agreed the sale of properties for a total of £500,000. Mr Little said that if the share offer and property sales did not go ahead, the group would be unable to continue trading.

The company is offering 8.58m new ordinary shares at 35p apiece on a 2-for-50 basis. It is placing 2.9m of those shares and has undertakings for 2.6m.

WB also announced plans to restructure its share capital. Each existing ordinary share of 10p will be converted into one of 0.1p and a deferred share of 1p. Every 30 ordinary shares will be consolidated into one of 3p.

The group's 1990 results which showed a deficit of £1.58m (£588,000) after an exceptional charge of £353,000 (£75,000) due to redundancy and reorganisation payments.

Turnover rose from £5.7m to £14.2m. Losses per share were 4.36p (5.44p). The share price fell 5p on the news to close at 2p.

Extraordinary provisions covering provisions for property revaluation and closure amounted to £2.38m (£1.91m).

The property sales, which are subject to a vote by shareholders at the extraordinary meeting on September 3.

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NEWS DIGEST

Rotork's 16% rise bucks trend

ROTORK, the control and instrumentation group, bucked the trend in the engineering sector with a 16 per cent rise in pre-tax profits, from £3.75m to £4.35m, in the six months to June 30.

Turnover showed a slight decline from £25.6m to £25.1m following the sale of three subsidiaries at the end of 1990.

Mr Tom Smith, chief executive, said the group's performance was largely because of its global spread of operations: "It was a very puny size, but we are very international."

Strong demand from North America, Spain and the UK helped increase turnover. Rotork Automation, by the group's largest business and the world leader in electric actuators.

Rotork Analysis - which manufactures fine gas monitors and petroleum analysers - incurred a small loss but should break even for the year.







TECHNOLOGY

## Keeping reins on devolution

Federalism is not just a term which does the European Commission. As companies move away from centralised management structures and give more responsibility to individual business units, they are charged with finding the most effective way of devolving their IT decision-making to foster a federal relationship between the units and the central IT department.

The biggest problems are people-oriented, says Daphne Leggetter of Butler Cox, the technology consultancy which has completed a report on managing the devolution of systems responsibility.

"Perhaps the most difficult thing is to get business managers to accept their role in devolution," says Leggetter. Information systems managers, many of whom see their traditional role as IT decision-makers being eroded, are also loath to cede ground.

Leggetter says that several companies that she interviewed moved responsibility for IT from a central department to individual business units, where managers were clamouring to control their own budgets, only to find the results so disastrous that the company had to revert to a centralised structure.

Central to making a success of devolution, says Leggetter, is to clearly acknowledge the difference between systems strategy - what applications should do - and technology strategy - how they should do it. Responsibility can then be allocated to either the business manager or the central IT unit.

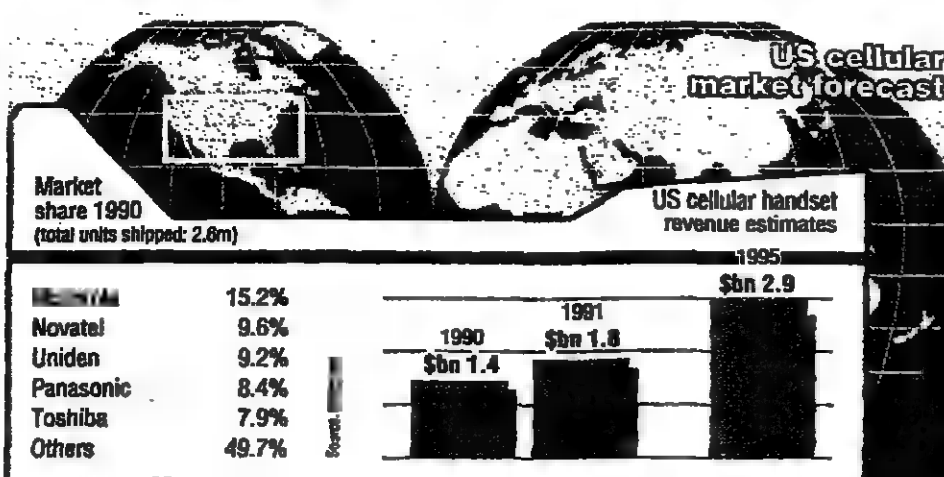
Leggetter warns that if devolution is given too much freedom to make their own IT strategy, the organisation could end up with islands of incompatible equipment, which could hinder global marketing plans. And as some certain businesses are probably best done by a central IT department and the results fed back to the local businesses - office automation is one example.

Della Bradshaw

\*Managing the Devolution of Systems Responsibility, Butler Cox, 18 Blombery Square, London WC1A 8LL

Della Bradshaw examines how two specifications for cellular telephones will affect the US market

## Digital rivals put the calls on hold



which is a handset industry growing by 30 per cent a year, and worth \$2.9bn (£1.7bn) by 1995. In the US there are already more than 5m cellular phone subscribers.

The divergence in the industry is in how manufacturers and phone companies have worked hard to ensure that they have a single standard. This will mean subscribers will be able to use the same phone from one country to another and will ensure that equipment costs will be kept low because of high volume manufacturing.

The US cellular phone companies are having to switch to a digital system because they are rapidly running out of capacity on their existing analogue networks. Whichever of the two digital options they choose - and the decision could be taken as soon as the autumn - companies will be able to double their subscriber numbers, at least.

The saga of the digital standards dispute began in January 1990 when the Cellular Telecommunications Industry Association (CTIA), in Washington, which represents both the cellular service companies and the manufacturers, had to choose a digital standard to replace the analogue Ams system used throughout the US.

The choice was between a system called TDMA (time division multiple access) and FDMA (frequency division multiple access).

It was agreed that TDMA, which is technically superior to the digital cellular radio standard adopted in Europe, was the better option. The CTIA then began working towards the specifications for the service.

Just as the standard was being agreed, a small Californian company, Qualcomm, which specialised in satellite and military technologies, proposed a third option, CDMA (code division multiple access) would, according to Qualcomm, make the limited radio capacity in the band more economically than with the other options.

The difference lies in the way the radio channels are allocated. With the Ams system, which is used throughout the US today, each call is allocated a 30 kHz radio channel, which is divided into 12 sub-channels. In the TDMA system, each call is allocated a 12.5 kHz radio channel, which is divided into 12 sub-channels. In the CDMA system, each call is allocated a 1.25 MHz radio channel, which is divided into 12 sub-channels.

safe with TDMA, which is well proven.

Eyes will be focused on the nine big players in the US cellular business: GTE, Motorola, Cellular, and seven of the regional Bell operating companies, which together provide 90 per cent of the service.

If several of them opt for CDMA it will cause a split in the marketplace.

Qualcomm, a division of the California phone company and one of the largest cellular operators, was the first to work with Qualcomm on CDMA. Nymex Mobile, which owns the New York area and American Mobile, from Chicago, are also participating in trials, as are Bell Atlantic Mobile Systems, GTE and Pacific Cellular.

However, all phone companies are hedging their bets. "Everybody's keeping their fingers in every pie," says John Wickens, senior vice president in the information industry group of PA Consulting, in Princeton, New Jersey. "That's the name of the game here."

Many manufacturers such as Motorola, which has licensed CDMA technology from Qualcomm, are also continuing to work on TDMA technology. Nokia, of Finland, has several

Japanese manufacturers are also continuing the expensive task of working on both standards. Even the CTIA, which still strongly supports its original decision to back TDMA, has a working group studying what CDMA has to offer.

In an attempt to counter the claims of its detractors that the CDMA is unproven, Qualcomm has just started stage two of its systems validation tests, deploying five cells and 70 mobile phones in San Diego. The tests will be completed by the end of September, and largely on the basis of these tests will the cellular phone companies decide which technology to opt for. Qualcomm already carried out tests in Chicago in 1980 and New York in February 1990.

If some cellular operators opt for CDMA while others stick to TDMA the eventual loser will be the consumer. Each geographical district has two competing services, one run by the local "Baby Bell" phone company and the other by a competing company. If one opts for CDMA while the other chooses TDMA the subscriber would be unable to switch allegiance unless special phones are made which work to both standards.

The manufacturers are already facing the dilemma of having to make a dual stan-

dard phone, to cope with both the new digital standard (be it TDMA or CDMA) and the analogue Ams one. This is because, unlike in Europe where phone companies are being allocated a new chunk of radio spectrum for digital services, US services will be limited, for the foreseeable future, to the radio spectrum of spectrum which is already used for analogue services.

Not only will this mean a dual-standard phone with two prices - Wickens estimates that a dual-standard phone will cost \$100 to \$150 more than a single standard one - but it will pose another problem for the phone companies offering cellular services.

In order to attract the customers to digital services, the operators will have to persuade their largest corporate customers to transfer to digital services. To get them to do that, says Wickens, they may have to offer special packages on handsets and service charges. "The issue of pricing and handsets will become very much a strategic question," he says. "It's about whether to go for a premium or a low-revenue."

On the other hand, argues Jacobs, if the cellular operators can find up to 10 per cent of the spectrum in the way, and adopt CDMA, they will be able to introduce a digital service which can handle the same number of subscribers as the analogue service.

Jacobs supports the CTIA, taken by the Federal Communications Commission (the regulatory body) in promoting competition rather than legislation as the best way of devising standards. "The market for a type of equipment will eventually find the other one will become dominant," he says.

Others are not so sure. "The US will get a more technically innovative solution," says Wickens. "But it will probably be at the expense of market consistency."

While the disagreements over digital cellular could prove problematic for the consumer, the future for the generation of digital mobile service, called personal communications services in the US, looks set to be even more fraught with difficulties. Approximately 30 companies have already been given licences in run trials of their PCS developments, and many of them are testing 30 technologies.

An article on the European cellular market appeared on the technology page on Tuesday.

## Eurotunnel trains will ride the rails on stainless steel

By Kenneth Gooding

Construction equipment used in the tunnel between England and France - the Eurotunnel Channel - will be arduous. Train passengers will be cocooned in air-conditioned comfort but the atmosphere in the tunnel will be humid and heavy with corrosive chloride particles, even though the Channel builders say the air is negligible and pumps are kept working continuously.

Half the trains to run through the Channel will provide a shuttle service and spend most of their working lives in the severe conditions. These are the trains that will haul cars and trucks.

So, while passenger trains using the Channel will be fairly conventional, the shuttle vehicles have been specially designed and built from a stainless steel containing substantial quantities of nickel.

Of 1,000-1,050 deg C, an aluminium ladder will have a total structural life of 10 seconds, a mild steel ladder maintained its integrity for the required five minutes of the while the exposure of a stainless steel ladder was continued for 45 minutes without any damage to its integrity.

The NDA says radiation resistance tests, conduction-through-fittings tests and conduction-through-wall tests all showed similar superiorities of stainless steel. It says: "In general, aluminium provides relatively little resistance to the heat of the fire. The melting point and the strength at even moderately elevated temperatures. Mild steel can withstand a useful period but suffers some loss of rigidity. Only stainless steel maintains its structural integrity, even after prolonged exposure to the highest temperatures that can be reached in a railcar fire."

Several underground railway companies, particularly in the US, have put security in case of fire at the top of their list of priorities and for this reason have chosen stainless steel. (The problem of graffiti is another worry for these companies, but stainless steel is resistant to graffiti with some chemical products that should not be used on aluminium surfaces.)

According to the NDA, another reason why stainless steel is more expensive than aluminium is that it is more easy to fabricate than aluminium. Also, if accidents happen, repairs of aluminium body structures are more expensive because of the difficulties of working out and welding the extruded sections. The capacity of stainless steel to absorb energy when deformed is 2.5 times greater than that of carbon steel. The NDA points out that when a stainless steel train crashed at 80 kph an hour in Australia, the collision caused only minor injuries and the railcar was put back into service after the damaged front section was cut away and a new one welded on. Other parts of the car were undamaged - even the windows were unbroken.

The Nickel Development Association (NDA) and three stainless steel makers recently had some independent tests carried out to prove this point. In one test, which involved a railcar being directly hit by flames at 1,000 deg C, the railcar was unscathed.

## Interim Results 1991 Abbey National plc

The following extracts are taken from the Chairman's Statement on the Interim Results 1991.

CONSOLIDATED PROFIT AND LOSS ACCOUNT			
	Six Months to 30th June 1991 (Unaudited)	Six Months to 30th June 1990 (Unaudited)	Full Year 1990
Net Interest Receivable	54.1	55	95.5
Other Income and Charges	19.7	87	190
Operating Expenses	(257)	(257)	(508)
Provisions for Loans and Advances	(58)	(15)	(55)
Profit before Taxation	308	182	582
Taxation	(393)	(98)	(205)
Profit after Taxation	205	182	377
Earnings per Share (pence)	15.3	13.9	28.8
Dividends per Share (pence)	3.5	3.15	9.5

The results for this first half year demonstrate that, despite the testing economic environment, the Group has been able to continue to grow profitably.



Aal Moody's Investor Services.  
AA Standard & Poors.

For copies of the news release and further information, please contact The Investor Relations Department, Abbey National plc, Abbey House, Baker Street, London NW1 6XL.

## BETTER ENVIRONMENT AWARDS FOR INDUSTRY

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The Better Environment Awards are given to any company that has developed environmental projects in the UK or any non-industrial organisation running projects on a commercial basis. This year, a new category - The Recovery of Waste Award - has been introduced in addition to the present four awards.

This year's entries will be considered for nomination to the European Community scheme.

For further details fill in the coupon and send to: The Awards Administration, Better Environment Awards For Industry, c/o John Adam Smith, London WC2N 6EZ.

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### The Product Award

is for consumer products that take environmental considerations into account from raw material selection, through design, manufacturing and use to disposal.

### The Management Award

is for the development and practical implementation of a corporate or management strategy which has particular regard for the environment at all stages of operation.

### The Technology Transfer Award

is for the development of environmentally-sound technologies and management systems for developing countries, or for those specifically designed and developed for the particular situations of developing countries.

### NEW CATEGORY The Recovery Award

is for economically-viable technologies and strategies for the recycling and reclamation of waste materials.



## COMMODITIES AND AGRICULTURE

## Soviets urge city dwellers to help gather harvest

By Leyla Boulton in Moscow

MR VYACHESLAV CHERNOV, the Soviet agriculture minister, yesterday urged city dwellers to help peasants collect the harvest.

His remarks were echoed by Mr Yegor Stroyev, the Communist Party official responsible for the party's agricultural policy, who told a joint news conference: "To speak today about a coming hungry winter is groundless. We need simply to gather the harvest and eat it."

By way of contrast, Mr Vladimir Sukhobak, the economics minister, warned a few days ago of a "real threat of hunger" as a result of this year's lower harvest.

Why then is the government issuing such conflicting signals concerning an issue so sensitive that false rumours last winter of a possible "gold" (a word which confusingly means both hunger and famine in Russian) resulted in panic buying and unnecessary foreign food aid?

The fact is that this year's harvest will be mediocre in comparison with last year's bumper crop, but an extraordinarily bad Mr Chernovianov

that it was early in forecast this year's grain harvest, as rains yet alleviate the effects of last month's drought.

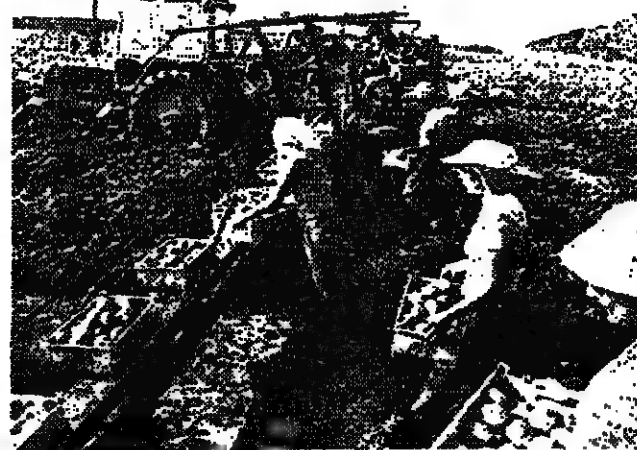
Western diplomats concurred with Soviet estimates which put the grain harvest at between 185m and 195m tonnes, a year in a bumper crop, much of which was inefficient collecting, storage and distribution.

That the harvest was a net figure of 195-200m tonnes and of 170m tonnes in 1988.

There are, however, additional factors which will complicate this year's harvest compared with 1988, the old administrative-command system was still in place.

The success of this year's harvest will depend on whether successfully the government mobilises new market mechanisms to encourage peasants to plant with their grain now that old command mechanisms are not working.

Mr Chernovianov said Mr Stroyev said that the government would soon unveil new measures designed to encourage peasants to supply grain for home and export.



City dwellers have worked with previous harvests

allowing them to sell a greater proportion of their output at market prices, which he was not clear exactly what he was referring to. The Ministry of Agriculture's latest estimates put Soviet imports from July this year to June 1982 at 200 tonnes, compared with 27m imported the previous year.

A conflict of signals is political, with different branches of government pursuing different aims. Mr Chernovianov, for instance, seemed to be saying that things would be alright in his sphere of responsibility, providing he received outside support. One of Mr Chernovianov's responsibilities, while, is to attract western sympathy and assistance, while trying to absolve the government from blame for the system's failings.

The only ones who might be able to do this are the farmers, who don't give a damn about their state or their land. They spend nothing, let alone money in without spending a penny on maintenance.

Ten years ago, Mr Glyn Davies thought he could reasonably look forward to a future in which a large measure of security was assured by a degree of profitability. Today, the future is anything but assured and he looks back upon a decade in which his hopes foundered.

Mr Davies lives on a 700-acre five miles outside Welshpool, just inside the border with England. He is the third generation of his family to farm this land. When his father died suddenly 15 years ago he was forced to borrow heavily from the bank to buy out his five sisters.

"Until two to three years ago the return on the farm was reasonably steady," he says, "but since then we have suffered badly. I had to borrow heavily and I can no longer service my debt. The only way to make sense of it is to sell assets."

The favourite means has been selling old buildings for cash and Mr Davies is no exception in this rule. A barn and a house or so were sold in 1980, and he has had to borrow heavily from the bank to buy out his five sisters.

Mr Davies is one of those who have been hit by an alternative income. He has been hit by an alternative income. He has been hit by an alternative income.

David Bateman, of University College, Aberystwyth for Wales, a government quango in which Mr Glyn Davies is chairman, reported that the farming community in mid Wales declined by 200 jobs a year between 1985 and 1988. Until the mid-1980s, as both Mr

and Mrs Davies agree, the prospects were good. Then life became very difficult. According to Professor Bateman, changes in farm employment "respond only very slowly to farm income pressures. Prices of all the main products were lower in 1988 than at the beginning of the decade. Other changes were in government support levels, in the EC subsidy, and in the amount of land available to the farming community. The figure, Prof Bateman suggested, might have been as much as 27m in 1988.

To compound matters, the European Commission has been looking for large savings on the common agricultural policy, an undertaking which is bound to have an effect on the hill farmer.

Mr Ray MacSharry, the agriculture commissioner, has put forward a policy of "modulation", that is to say, a policy of discrimination in favour of the smaller farmer and of those in poorer regions.

Mr Davies fears that Mr MacSharry's ideas - which are still in win approval and in which Mr Glyn Davies would appear, on the surface, to agree - will actually drive small farmers out of business.

MacSharry will hit many farmers very hard, he says. "His proposals are still in the air," he says, "but this was the one that would hit many farmers very hard."

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## Bleak future beckons hill farmers

Anthony Moreton outlines the factors eroding way of life in Wales

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Livestock at risk: European proposals may leave Welsh farmers at a disadvantage

his hill land is not adequate for fattening animals, most of his lambs are sold on to lowland farmers, who bring them to market.

"Two years ago the price of ewe lambs for breeding would have been about £55 each," he says. "Last year they were £35. This fall stems from the cut in the EC subsidy."

Beef sales have also suffered, largely as a result of the slump in the beef market. "The price of beef carcasses has fallen by 20 per cent," he says. "The price of beef carcasses has fallen by 20 per cent."

Mr Chris Gillmore, an executive of the Farmers' Union of Wales, which is a Welsh farmer, says that farm incomes have dropped by up to 40 per cent during the last two years.

"There has been a long-term decline in the industry over the last 20 years," he says, "and a lot of farms have had to restructure. Family farms have tended to disappear or decline into a part-time status. Farming on the hills of mid Wales has reached the point where it cannot support a family full time. The result has been that the hill farmer has had to seek an alternative income, to turn his hand to other uses, or his wife goes out to work."

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## Soyabean futures still falling

By Barbara Durr in Chicago

CHICAGO FUTURES prices for soybeans and maize continued to fall yesterday, though at a slower pace, as traders sought to unwind positions taken up during last week's strong upsurge. The September soybeans position, which had already surrendered 88 cents of last week's 77 cent rise, was trading last yesterday at 117.11 cents a bushel, down 7.50 cents on the day. December maize was down 4.45 cents at 253 cents a bushel.

A more cautious attitude was apparent in the market as operators awaited the major crop production survey by the US Department of Agriculture, due Monday.

Mr Steven Bruce, a grain analyst with the Chicago firm of Geldermann, said: "Right now the caution is the word. 'Right now' the word is 'caution'."

Commodities in Chicago added that traders "are going to play it very gingerly. They won't take big positions."

Open interest, or the number of contracts outstanding, is expected to continue to decline as it has since the beginning of the year.

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● Latest Share Prices are available on FT Cityline. Calls charged at 34p/minute cheap rate and 45p/minute at all other times. To obtain your free Share Code Booklet ring 071-925-2128

**INDUSTRIALS (Miscel.)—Contd**[illegible][illegible][illegible][illegible]

293 London & Man.	335	13.32	1.3	24.8
301 March Market S.I.	1434	832.60	1.6	24.8
302 Metropolitan Group 10p	149	4.24	0.8	24.8
303 Metropolitan Group 20p	149	4.24	0.8	24.8
187 Metropolitan Group 5p	251	10.3	0.7	24.8
577 Persimmon	749	26.75	0.8	24.8
578 Persimmon	749	26.75	0.8	24.8
512 Salting Inc	407	26.9	0.7	24.8
212 Salting Inc	218	12.9	0.7	24.8
213 Salting Group 10p	218	12.9	0.7	24.8
101 Shandana Group Inc. Sds	617	680.75	4.1	24.8
102 Shandana Group Inc. Sds	617	680.75	4.1	24.8
103 Shandana Group Inc. Sds	617	680.75	4.1	24.8
304 Shandana Group Inc. Sds	617	680.75	4.1	24.8
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355 Shandana Group Inc. Sds	617	680.75	4.1	24.8
356 Shandana Group Inc. Sds	617	680.75	4.1	24.8
357 Midland Freight 10p	149	4.24	0.8	24.8
242 Wdla Group 12p	319	13.2	1.3	24.8

*[Faint handwritten notes at bottom of page]*

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**MINES—Contd**[illegible]

64	36 St. Vincent West.....	Y	33	---	---	---	---
66	36 St. Kells Mins. Irish..	Y	36	---	---	---	---
73	St. Kenmare .....	Y	11	-1	---	---	---

21	1111 Hawaiian Republics	1.00			
22	1112 Hawaiian Islands	1.00			
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99	1189 Hawaiian Islands	1.00			
100	1190 Hawaiian Islands	1.00			

Same interim; reduced final and/or reduced earnings indicated

[illegible]

Abbreviations: *nd* ex dividend; *ns* ex scrip issue; *nr* ex rights; *ni* ex

REGIONAL & IRISH STOCKS		
The following is a selection of Irish stocks, the latter being quoted in Irish currency.		
	440	50
Gay and Rose Pl.	26	
Irish Play. 50	1978	
IRISH		
8.5% at 200	521.5	+4
8.5% at 175	527.5	+2
8.5% at 150	532.5	+2
8.5% at 125	537.5	+2
8.5% at 100	542.5	+2
8.5% at 75	547.5	+2
8.5% at 50	552.5	+2
8.5% at 25	557.5	+2
8.5% at 0	562.5	+2
8.5% at 0	567.5	+2
8.5% at 0	572.5	+2
8.5% at 0	577.5	+2
8.5% at 0	582.5	+2
8.5% at 0	587.5	+2
8.5% at 0	592.5	+2
8.5% at 0	597.5	+2
8.5% at 0	602.5	+2
8.5% at 0	607.5	+2
8.5% at 0	612.5	+2
8.5% at 0	617.5	+2
8.5% at 0	622.5	+2
8.5% at 0	627.5	+2
8.5% at 0	632.5	+2
8.5% at 0	637.5	+2
8.5% at 0	642.5	+2
8.5% at 0	647.5	+2
8.5% at 0	652.5	+2
8.5% at 0	657.5	+2
8.5% at 0	662.5	+2
8.5% at 0	667.5	+2
8.5% at 0	672.5	+2
8.5% at 0	677.5	+2
8.5% at 0	682.5	+2
8.5% at 0	687.5	+2
8.5% at 0	692.5	+2
8.5% at 0	697.5	+2
8.5% at 0	702.5	+2
8.5% at 0	707.5	+2
8.5% at 0	712.5	+2
8.5% at 0	717.5	+2
8.5% at 0	722.5	+2
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8.5% at 0	752.5	+2
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8.5% at 0	762.5	+2
8.5% at 0	767.5	+2
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8.5% at 0	2372.5	+2
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8.5% at 0	2382.5	+2
8.5% at 0	2	

waters	53	Vickers	19
Aerospace	54	Wellcome	40

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**Adaptive Systems**

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## REGIONAL & IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose \$1.....	64 1/2		
Fitzlay Pkg. 5p.....	28		
Holt Lead Zps.....	197 1/2		
<b>IRISH</b>			
Can. 8 1/4 Ls 2011.....	\$33 1/2	+4	
9pc Can Ls 1996.....	\$27 1/2	+4	
Lis. 13 1/4 97/02.....	£113 1/2	+4	
Heaton Hdgns.....	38	+5	
IRC.....	136		
United Drug.....	170		

**TRADITIONAL OPTIONS**  
3-month call rates

<b>Industrials</b>	<b>35</b>
<b>Utilities</b>	<b>36</b>
<b>Technology</b>	<b>37</b>
<b>Healthcare</b>	<b>38</b>
<b>Consumer Goods</b>	<b>39</b>
<b>Real Estate</b>	<b>40</b>
<b>Energy</b>	<b>41</b>
<b>Transportation</b>	<b>42</b>
<b>Telecommunications</b>	<b>43</b>
<b>Media</b>	<b>44</b>
<b>Other</b>	<b>45</b>

<b>ASTEC</b>	(BSRO)	12
<b>BAT.</b>		27

Barclays	38	First National	29
Blue Circle	24	T&N	15
		Hallam	60

Brit Aerospace	56	Wellcome	40
British Steel	12		

Charter Coas.	45	Brit. Land	30
Comm. Union	44	Control Sec.	2

FKI 6 MFC 48  
FNFC 20 MountHigh 8 1/2

Glaxo	88	Oils
Grand Mal	62	Auto Parts

GNP	31	British Control	49
Nelson	19	Conroy Petim	10
Unsubsidized	20		

Laubrock	22	Shel	41
Legal & Gen	36	Tuscar Res	2
Log Finance	28		

Lucas lists.....	13
Marks & Spencer.....	21

P & O Ltd	52	RTZ	48
Royal Elect	12		

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This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1.150 a year for each security shown, subject to the Editor's discretion.

Accepted for publication 12 November 2007

<sup>a</sup> Values are means ± SD.



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UNIT TRUSTS**[illegible]

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Continued on next page



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### MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated £ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain other investments are shown in dollars to enable you to compare them. Distributions free of UK Income Tax and Capital Gains Tax. Insurance policy. A Simple provision insurance. A Designated in Luxembourg as a UCITS (undertakings for Collective Investment in Transferable Securities) fund. A Offered price (includes all expenses except agent's commission).  
Previous day's price. £ Company price. £ Spreaded. £  
Yield before Jersey tax. 1 £-substitution. 21 days available to holders. £ Yield before expenses shows annualized rates of NAV increase only.  
Funds not SIC recognized. The regulatory authorities for these funds are: Germany: Financial Services Commission; Luxembourg: Commission de Régulation des Marchés Financiers; Ireland: Financial Services Commission; Jersey: Commercial Relations Department; Luxembourg: Institut Monétaire Luxembourgeois.



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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar eases against D-Mark

THE DOLLAR slipped a little against most European currencies but was slightly firmer in terms of the Japanese yen after a subdued day's trading on the foreign exchanges.

Mr Martin Fitzwater, House of Representatives, welcomed Tuesday's easing of the Federal Reserve's monetary stance, and said the Fed's action by the Fed on the New York market yesterday, adding temporary repurchase agreements, tended to confirm that the Fed had cut the federal funds rate by 50 basis points from 5 1/4 to 5 percent.

Funds were trading at 5 1/4 percent at the time of the Fed's move.

The 12 member banks of the Federal Reserve system, known as the "Beige Book", pointed to the US economic improvement. The survey concluded that the economy was generally flat or edging slightly, but respondents from all areas expect a recovery in the second half of 1991.

There were some pick-ups in manufacturing but the recovery is not uniform and demand is stronger for capital equipment. The rise in home sales is losing steam and business loan demand.

in the districts, according to the survey.

At the London market the dollar fell to DM1.7100 from DM1.7145, and to FF6.8150 from FF6.8150. The pound improved to Y138.65 from Y138.65. On the Bank of England figures the dollar's index rose to 65.9 from 65.8.

The decline in US interest rates could influence the German Bundesbank's decision on whether to tighten monetary policy at its next council meeting. A rise in the Lombard rate may now be less likely, but the market still expects the council to raise Germany's discount rate.

Mr Helmut Schlesinger, Bundesbank president, said that monetary tightening will not endanger Germany's economy or employment.

He added that the central bank's task is to ensure price stability.

Speaking on German radio Mr Karl Thomas, regional head of the Bundesbank in the State of Hesse, repeated his call for a rise in the discount rate, saying that it provides a subsidy for the bank's present level of 8.5 per cent, while market rates are in the region of 9 per cent.

The D-Mark remained firm in the European exchange rate mechanism, while sterling fell to Y138.65 from Y138.65.

There were no new factors to influence the pound, amid uncertainty about the timing of the next British interest rate move.

Germany provides conflicting influences.

Sterling rose 20 points to Y138.65 from Y138.65, and climbed to Y138.65 from Y138.65, but was unchanged at FF9.9675 from FF9.9675.

The D-Mark rose 0.1 to 81.0.

FINANCIAL FUTURES AND OPTIONS

LIFTS LONG QTY FUTURES OPTIONS									
125,000 units of 100%									
Strike	Call	Put	Settlement	Strike	Call	Put	Settlement	Strike	Call
90	0.12	0.12	0.12	90	0.12	0.12	0.12	90	0.12
91	0.12	0.12	0.12	91	0.12	0.12	0.12	91	0.12
92	0.12	0.12	0.12	92	0.12	0.12	0.12	92	0.12
93	0.12	0.12	0.12	93	0.12	0.12	0.12	93	0.12
94	0.12	0.12	0.12	94	0.12	0.12	0.12	94	0.12
95	0.12	0.12	0.12	95	0.12	0.12	0.12	95	0.12
96	0.12	0.12	0.12	96	0.12	0.12	0.12	96	0.12
97	0.12	0.12	0.12	97	0.12	0.12	0.12	97	0.12
98	0.12	0.12	0.12	98	0.12	0.12	0.12	98	0.12
99	0.12	0.12	0.12	99	0.12	0.12	0.12	99	0.12
100	0.12	0.12	0.12	100	0.12	0.12	0.12	100	0.12

IN NEW YORK

Aug 7	Aug 8	Aug 9
100	100	100
101	101	101
102	102	102
103	103	103
104	104	104
105	105	105
106	106	106
107	107	107
108	108	108
109	109	109
110	110	110
111	111	111
112	112	112
113	113	113
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116	116	116
117	117	117
118	118	118
119	119	119
120	120	120

EMS EUROPEAN CURRENCY UNIT RATES

Currency	Aug 7	Aug 8	Aug 9
Belgium	133.431	133.431	133.431
France	133.431	133.431	133.431
Germany	133.431	133.431	133.431
Italy	133.431	133.431	133.431
Netherlands	133.431	133.431	133.431
Spain	133.431	133.431	133.431
UK	133.431	133.431	133.431
US	133.431	133.431	133.431

STERLING SPOT - FORWARD AGAINST THE POUND

Term	Aug 7	Aug 8	Aug 9
1 month	138.65	138.65	138.65
3 months	138.65	138.65	138.65
6 months	138.65	138.65	138.65
12 months	138.65	138.65	138.65

CURRENCY MOVEMENTS

Currency	Aug 7	Aug 8	Aug 9
US	100	100	100
UK	100	100	100
FR	100	100	100
DE	100	100	100
IT	100	100	100
ES	100	100	100
JP	100	100	100

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Term	Aug 7	Aug 8	Aug 9
1 month	100	100	100
3 months	100	100	100
6 months	100	100	100
12 months	100	100	100

EURO CURRENCY INTEREST RATES

Term	Aug 7	Aug 8	Aug 9
1 month	100	100	100
3 months	100	100	100
6 months	100	100	100
12 months	100	100	100

OTHER CURRENCIES

Currency	Aug 7	Aug 8	Aug 9
Swiss	100	100	100
Scandinavian	100	100	100
Other	100	100	100

EXCHANGE CROSS RATES

Currency	Aug 7	Aug 8	Aug 9
US	100	100	100
UK	100	100	100
FR	100	100	100
DE	100	100	100
IT	100	100	100
ES	100	100	100
JP	100	100	100

BASE LENDING RATES

Bank	Aug 7	Aug 8	Aug 9
US	100	100	100
UK	100	100	100
FR	100	100	100
DE	100	100	100
IT	100	100	100
ES	100	100	100
JP	100	100	100

MONEY MARKETS

Rates little changed

INTEREST RATES and prices of short sterling futures finished little changed in London yesterday, as hopes of the Fed's easing of monetary policy by the Federal Reserve had led to an early cut in the bank's base rates. In early trading, the 12-month money rate rose to 10 1/4 percent from 10 1/8 percent, but the 12-month money rate fell to 10 1/8 percent from 10 1/4 percent.

Three-month sterling interest rates declined to 10 1/8 percent from 10 1/4 percent, but the 12-month money rate fell to 10 1/8 percent from 10 1/4 percent.

UK clearing bank base lending rate 11 per cent from July 12, 1991.

On the London market, the 12-month money rate fell to 10 1/8 percent from 10 1/4 percent, but the 12-month money rate fell to 10 1/8 percent from 10 1/4 percent.

Credit remained in very short supply in the London money market. The Bank of England initially forecast a shortage of £150m, but revised it to £150m at noon. Total assistance of £147m was provided.

An early round of help was provided at that time, but the authorities bought £200m, for resale to the market.

Term	Aug 7	Aug 8	Aug 9
1 month	100	100	100
3 months	100	100	100
6 months	100	100	100
12 months	100	100	100

FT LONDON INTERBANK FIXING

Term	Aug 7	Aug 8	Aug 9
1 month	100	100	100
3 months	100	100	100
6 months	100	100	100
12 months	100	100	100

MONEY MARKET FUNDS

Money Market Trust Funds

Fund	Aug 7	Aug 8	Aug 9
US	100	100	100
UK	100	100	100
FR	100	100	100
DE	100	100	100
IT	100	100	100
ES	100	100	100
JP	100	100	100

Money Market Bank Accounts

Bank	Aug 7	Aug 8	Aug 9
US	100	100	100
UK	100	100	100
FR	100	100	100
DE	100	100	100
IT	100	100	100
ES	100	100	100
JP	100	100	100

CROSSWORD

No. 7,615 Set by GRIFFIN

ACROSS

1 US dollar of 74 cents (5,24)

10 Improvised Russian embraces Italian (7)

11 Left Spain and Portugal as a republic (7)

12 Passes much returning and enters (5)

13 A man with a mortar board (6)

14 On which head's set-back retirement purposes? (10)

15 After first mistake he's engaged (4)

16 Likely to remain fresh (1)

17 Apply now, a clergyman (10)

18 Ghostly rogues unite yours truly (1)

19 We included trip when I lost (5)

20 Charlatan very in organised crime (7)

21 Performer mad at Sir Lawrence (1)

22 August marriage? (5,7)

23 Down

24 Service noise using service book (10)

25 Cancellation (7)

26 Internal accuracy (6)

27 Hastened to say it's obscure (4)

28 Men well up in jazz (10)

DOWN

1 Laura does the French doctor in shadow (5)

2 For example, a cart's upright length (7)

3 Face chose line when transcribing round groups of islands (13)

4 Sailor holding male tourist is a murderer (4,5)

5 Bill claimed a mango belonging to a college (10)

6 Gate orders things said to be pointless (5)

7 Meal gets old in sink (7)

8 Soldier thanks boy without showing disloyalty (7)

9 Aerosol for wasps was missing raised beam (5)

10 Many drink after sex (4)

Solution to Puzzle No. 7,614

ACROSS

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EUROPE'S BUSINESS NEWSPAPER

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for a complimentary copy**



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**NASDAQ NATIONAL MARKET**

3:15 pm prices August 7

Stock	P	W	H	High	Low	Last	Chg	Stock	P	W	H	High	Low	Last	Chg	Stock	P	W	H	High	Low	Last	Chg	Stock	P	W	H	High	Low	Last	Chg	
Atlantic	0.10	24	42	34 1/2	33	34 1/2	0	DNV Tech	0.06	10	17	14	10 1/2	9 1/2	0	LDOS A	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
AT&T	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS B	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS C	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS D	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS E	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS F	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS G	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS H	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS I	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS J	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS K	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS L	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS M	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS N	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS O	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS P	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS Q	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS R	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS S	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS T	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS U	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS V	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS W	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS X	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS Y	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS Z	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AA	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AB	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AC	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AD	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AE	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AF	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AG	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AH	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AI	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AJ	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AK	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AL	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AM	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AN	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AO	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AP	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AQ	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AR	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AS	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AT	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LDOS AU	0.40	120	65	70	65	70	65	70	65	70	65	70	65	70	65	70
Aviation	0.10	24	42	34 1/2	33	34 1/2	0	Shell Int	0.06	10	17	14	10 1/2	9 1/2	0	LD																

## 3:00 pm prices August 7

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The FT proposes to publish this survey on **October 16 1991**. The FT is read daily by 54% of Chief Executives in Europe's largest companies. To reach this influential market and obtain further details, call **Philip Dodson on 071 873 3389** or Fax **071 873 3062**.

**FINANCIAL TIMES**  
EUROPE'S BUSINESS NEWSPAPER

**FINANCIAL TIMES**

**AUTHORS** Your book published. Details: ☐ Main Lingua



AMERICA

Equities mark time after Federal Reserve action

Wall Street

SHARE prices idled in a narrow trading range yesterday morning as the market continued to digest the implications of Tuesday's lowering of short-term interest rates by the Federal Reserve, writes Patrick Harrison in New York.

By 1 pm the Dow Jones Industrial Average was down 2.91 at 3,024.37, never having strayed more than a few points away from opening values. The more broadly based Standard & Poor's 500 was equally inactive, edging 0.05 lower to 590.59 by 1 pm. The Nasdaq composite of over-the-counter stocks rose 0.90 to 506.10. Turnover on the NYSE was relatively heavy at 104m shares by 1 pm.

The unexpected monetary policy easing by the Fed on Tuesday has switched the market's attention to the short-term outlook for interest rates, and whether the Fed will cut the more influential discount rate from its current level of 6.5 per cent.

The consensus among analysts yesterday was that the discount rate would remain unchanged for the near term, with the Fed probably waiting for at least one more month's worth of economic data before deciding whether to cut the rate.

Among individual stocks, Tenneco jumped 2 1/2% to \$39 1/2, hopes rose in the market that problems at the company's loss-making JI Case unit would be addressed in the light of the naming of a new president.

Toys 'R' Us climbed 3% to \$24 1/2 on volume of more than 1/2m shares after reporting a 9.5 per cent increase in second quarter sales to \$1.05bn. Woolworth firmed 1 1/2% to \$28 1/2 in spite of a big decline in second quarter net income to \$21m. The fall was blamed on poor sales and increased markdowns.

Newcomer MGIC Investment enjoyed a good debut, the stock trading at \$28 1/2 on volume of 3.5m shares after it was priced at \$24 a share. Interest in the stock was such that both the price range and size of the issue were raised to meet demand.

Xoma plunged 4% or 18 cents to \$18 1/2, on 2.2m shares after Shearson Lehman, the brokerage house, cut its rating on the stock to a "neutral" from "buy", citing concern about the company's Xomen-E-5 drug. Centocor, down 2 1/2% at \$32 1/2, suffered from a similar Shearson downgrade and a recommendation to investors to take profits now.

VLSI Technology fell 1% to \$6 1/2 after the company imple-

Taiwan's recovery halted by bank openings

Bank capital requirements have prompted a sell-off of shares, says Peter Wickenden

THE RECENT opening of Taiwan's state-dominated banking system to private competition has dealt a blow to the recovery of the stock market from last year's 80 per cent crash.

In the first four months of the year the weighted index shrugged off the Gulf war and soared by 90 per cent from a low of 3,316.36 on January 15 to a 1991 high of 6,305.22 on May 8. Since then it has plunged by 22.5 per cent to 4,838.17 yesterday. Analysts hoped that the recovery had been topped by a fierce rebound towards the end of July, but volume has shrunk on a lack of institutional interest which, they say, means that almost anything could happen.

In June, the government announced the names of 15 investor groups to be granted licences to start private banks. They are the first significant financial institutions on the island in the last 15 years.

Mostly associated with large industrial conglomerates, these groups are now in a frantic scramble to raise the required capital before an August 27 deadline, and they have resorted chiefly to selling off

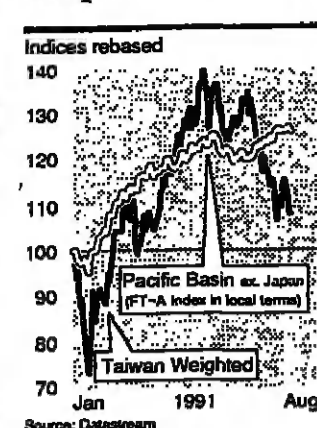
massive blocks of shares. Left in the unpredictable hands of a dwindling core of retail investors, the market is likely to remain volatile until the new banks finish scraping their money together and a recent cut in interest rates filters through.

Analysts blame the Finance Ministry for issuing too many new banking licences at once. The market had been expecting about 10.

Mr Chris Ruffie, the Thailand representative of S.G. Warburg Securities, says that, once unsettled by the news, the market's movements became exaggerated. "Thirty to 40 per cent of trading is on margin. So you get overshoots on both the downside and the upside," he explains.

"I am appalled that the groups involved have left it so late to raise their capital," he adds. They must raise a total of about \$150bn (US\$5.5bn). Of this, 20 per cent had to be deposited with the government on the licence application last October, and the rest must be raised now. Analysts say about half of the groups have done this, but others are struggling.

The stock market may be hit



again in September, when the new banks will be required to raise a final portion of their cash by a public subscription.

The market, however, has received another, more permanent, shock from this process. The three state-run commercial banks, Changhua, Taipei Commercial and Hua Nan, which currently dominate the industry, have a small percentage of shares trading on the market. Traditionally these have been overpriced, and the financial sector in the most heavily weighted, making up

40 per cent of the index. The potential threat to these three highly profitable but inefficient banks from the 15 newcomers has investors in a panic.

While the index has gained 22 per cent in the year to date, the financial sector has shed 5 per cent. The three banks began to drop sharply in June, they could continue to soften for more than a year.

As the financial sector has lost its appeal as a means to push up the broad market, investors' attitudes have begun to change. Some analysts disagree on whether the market moved by fundamentals rather than by an excess of speculative cash.

"The liquidity-driven market is history. People got burned last year and they tend now to be more conservative," says Mr Michael Chen of Fidelity in Taipei. "Money is going from stocks and real estate into high interest accounts."

This has pleased the government, which has just launched into a new US\$500bn five-year National Development Plan to be financed mostly by very large bond issues. Two issues

EUROPE

Receding fears of German rate rise boost Continent

TUESDAY'S CUT in the US Federal funds rate, and the implications for European interest rates, lifted most European shares yesterday, writes Our Markets Staff.

FRANKFURT ended at a day's high, on a growing belief that the US Federal Reserve's move had taken pressure off the Bundesbank on the interest rate front. Some analysts said they did not expect the Bundesbank to raise the Lombard rate at its council meeting on August 15, although they could not rule out a rise in the discount rate, which was already expected by financial markets.

Furthermore, signs that the west German economy was cooling - including a continuous downward in capacity utilisation ratios in the second quarter and slower year-on-year order inflow in May and June - were further arguments against a rise in domestic interest rates.

The FAZ index, calculated at mid-session, rose 3.38 or 0.5 per cent to 6740.0, while the DAX index closed at 1933.0 or 1.5 per cent higher at 1,831.43, indicating some US buying in the latter part of the session. Volume rose to DM4.9bn from DM3.7bn.

Optimism about interest rates boosted the financial sector, which has outperformed in recent weeks in the wake of good interim results. Deutsche Bank put on DM12.70 to DM653 and Dresdner Bank added DM7 to DM385.

The construction sector staged a technical recovery after its weakness in the last month. Hochtief was up DM44 or 3.5 per cent at DM1,285 while Holzmann rose DM36 or 2.8 per cent to DM1,281. By contrast, the chemical sector continued to be neglected, with BASF firming just 50 pps to DM236.50 and Bayer up DM51 to DM277.

PARIS also closed at its session high, with the CAC 40 index up 22.91 or 1.3 per cent at 1,782.44, its best level in more

FT-SE Eurotrack 100 - Aug 7

Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1110.53	1110.25	1110.69	1111.72	1112.22	1112.78	1113.11	1113.11
Day's High 1114.19 Day's Low 1109.98							
Aug 6	Aug 5	Aug 4	Aug 2	Aug 1	Jul 31		
1105.49	1110.63	1110.63	1115.44	1114.40	1110.04		

(Base value 1000 (200/1990))

than six weeks. Turnover peaked up from FF1.05bn to FF1.8bn.

Michelle continued to climb, following news last week that it would increase some tyre prices. Continental of Germany also raised prices yesterday, reducing the risk that Michelle's move would harm its market share. The shares jumped FF1.50 or 6.4 per cent to FF108.70, with \$54.850 traded.

Interest rate hopes lifted financial stocks. CCF rose FF1.80 or 3.2 per cent to FF166.80 on volume of 101,200 shares, Suez added FF6.50 to FF332 on 163,716 shares, and UAP the insurer, gained FF13 to FF387.

Lafarge Coppée, the cement group, recovered from a day's low of FF340 to close FF44 down at FF348 on 128,460 shares. Investors were worried about the company's first-half sales figures, due next week. Also in the construction group, Saint-Gobain recouped FF6 to FF44, after recent weakness.

STOCKHOLM bucked the positive European trend and fell for the fourth consecutive day on caution before the interim reporting season and the general election next month. The Affarsvärlden General index fell 9.8 to 1,083.5 in heavy turnover of SKR539m.

SKF, expected to show a fall in profits when it reports its results today, saw its free B share price fall SKR4 to SKR13.

ASIA PACIFIC

Nikkei makes first gain in five trading days

TOKYO THE STOCK market staged its first gain in five trading days yesterday, as a late round of arbitrage-linked buying buoyed prices in continued low volume, writes Neil Weinberg in Tokyo.

The Nikkei average rallied 226.05 to 23,691.02, after declining 368.29 on Tuesday. It registered a day's high of 23,708.57 and a low of 23,430.96. Volume picked up modestly to 170m shares from 160m. Advances outnumbered declines by 476 to 425, with 180 issues unchanged.

The Toxip index of all first section shares improved 9.37 to 1,822.60, but the second section index finished 18.39 lower at 3,046.89. In London trading the ISE/Nikkei 50 index was just 0.50 firmer at 1,387.59.

The market received support at the opening from Tuesday's gains in New York, and expectations that the US Federal funds rate reduction could lead to similar moves in Japan. Strong bond prices and the yen's advance against the dollar also boosted stocks early on, although the enthusiasm waned by midday.

The final-hour surge followed a widening of the spread with the futures market, which prompted a round of cash market buying by arbitrage traders, led by leading US securities houses.

Interest rate-sensitive issues, including banks, gained ground. Dai-ichi Kangyo Bank climbed Y80 to Y2,390. Bank of Tokyo Y80 to Y1,390 and Mitsubishi Bank Y80 to Y2,690.

Companies with high domestic sales ratios also advanced, as a hedge against the effect on exports of the rising yen. Mitsubishi Estate moved ahead Y30 to Y1,580 and Osaka Cement Y19 to Y530.

In spite of the day's gains, the continued low volume reflects overall weakness

linked to worries over new financial scandal revelations in the Diet (parliament), summer holidays and the weariness of small investors to jump back into the market, observers said.

Among Wednesday's largest losers were exporters, particularly electrical, semiconductor manufacturers and production equipment makers. Selling began earlier in the week as a local securities firm cut its forecast for Nikon's earnings in the second half of the fiscal year. Electricals are also suffering from exportations of equipment will be cut, and the yen's rise and continued dullness in the US economy.

However, Mr Chuck Goto, an analyst at S.G. Warburg Securities, said investors traditionally overreacted to earnings figures in the heavily leveraged electrical sector and the sell-off has gone too far with

some firms. Canon ended Y40 lower at Y1,520, although its earnings are running ahead of predictions, Mr Goto noted.

Nikon dropped Y50 to Y1,040. Other losers included Canon, down Y40 to Y1,520, Hitachi, which was off Y30 at Y1,100, and Tokai, Y200 lower at Y5,780.

In Osaka, the OSE average shed 175.55 to 25,837.90 on volume of 10m shares. Bank of Kinokawa Y60 to Y1,410.

1,591.3, passing the previous 1991 peak of August 2. Turnover expanded to A\$270m from A\$183m.

Banking stocks rose on the rate optimism, with NAB up 10 cents at A\$7.22, Westpac 9 cents at A\$4.79 and ANZ 8 cents at A\$4.40.

NEW ZEALAND recovered after four days of falls. The NZSE-100 index moved up 17.58 or 1.2 per cent to 1,457.76 as turnover grew to NZ\$26.6m from NZ\$18.3m.

HONG KONG rebounded as details of the government's proposals to curb property speculation reassured investors. The Hang Seng index, which dropped 41.74 on Tuesday, recouped 40.04 to 4,061.31. Turnover eased to HK\$1.52bn from HK\$1.63bn.

KUALA LUMPUR lost its early gains on fears of higher interest rates. The composite index slipped 7.97 to 579.40, a

three-month low, as volume rose to 34m shares from 27m. SEOL fell sharply on profit-taking, after four days of rise. The composite index lost 21.45 or 2.6 per cent to 741.67 in turnover of Won\$19n, down from Won\$20n.

MANILA settled slightly lower in the absence of any market-moving news, but was considered to be vulnerable because of the uncertainty faced by the US military base in the country. The composite index dipped 3.02 to 1,008.99, although selling of oil shares boosted turnover to 94m pesos from 68m.

BOMBAY was broadly lower after the government hinted at a tax increase to counter a 10 per cent cut in fertilizer prices. The BSE index fell 23.25 to 1,657.44.

Brokers said fresh news would hit companies already squeezed by tight bank credit.

Italy acts to repel influx of Albanian 'boat people'

Italy's government has taken steps to repel the influx of Albanian 'boat people' who have been arriving in the country in large numbers since the end of the war in Albania.

The government has ordered the Italian coast guard to intercept and return to Albania any boats carrying more than 100 people, or more than 200 people if they are carrying weapons.

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FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY AUGUST 6 1991	MONDAY AUGUST 5 1991	DOLLAR INDEX
Figures in parentheses show number of times of stock			
Australia (69)	149.90	+0.7	129.81
Austria (20)	176.53	-0.5	152.87
Belgium (49)	132.40	+0.7	114.66
Canada (114)	140.66	+0.2	102.42
Denmark (37)	280.38	+0.2	225.49
Finland (18)	101.24	+1.8	87.68
France (106)	131.82	+0.3	114.16
Germany (65)	108.47	+0.1	90.04
Hong Kong (56)	167.59	-1.1	145.14
Ireland (18)	156.17	+0.9	126.24
Japan (174)	130.87	-0.1	113.33
Malaysia (68)	221.88	-0.1	192.15
Mexico (16)	129.82	-1.5	97.81
Netherlands (31)	140.66	+0.2	121.81
New Zealand (14)	47.04	-1.1	40.73
Norway (32)	203.21	+0.5	175.98
Spain (38)	197.82	+0.4	171.31
South Africa (61)	142.56	+0.3	123.48
Sweden (25)	151.67	-0.8	131.34
Switzerland (58)	190.08	-1.3	164.81
United Kingdom (240)	94.28	-0.2	81.65
USA (327)	158.24	+1.4	137.03

Audit to test green credentials

By Anju Sanahi and Andrew Waite

THE GREAT surge of interest in environmental issues has forced businesses to consider very seriously their environmental credentials.

Companies which try to cultivate "green credentials" are finding considerable commercial benefit. Not only do they have a marketing advantage but it enables them to keep ahead in the regulatory game, as enforcing agencies adopt a tougher stance on environmental issues.

Moreover, it is recognised that industrial operators and other landowners may face potentially enormous civil claims for damages relating to illness, personal injury and damage to property caused by pollution from their sites.

Businesses have therefore had to adjust to a new world in which environmental targets as well as purely economic ones have to be pursued vigorously.

Some companies are therefore seeking to put in place investigative procedures, by which their environmental performance can be measured against standards laid down by law, and also setting targets for improving this performance.

Perhaps, as an indication of the importance these companies place on green matters, such investigations have been called "environmental audits". However, any analogy with the financial audit immediately breaks down because the environmental audit (perhaps due diligence is a better expression) deals with a company's compliance with environmental regulations and recognised good practices as well as its actual and potential liabilities.

Environmental audits are carried out with different degrees of thoroughness and for different purposes. At one end of the spectrum they may be little more than a desk-top study, including a search of relevant public registers, to ensure that a company has all necessary licences and that the conditions are not unduly onerous.

This may be bolstered by discussions with the regulatory authorities as to compliance and a questionnaire to certain company employees to ascertain hidden liabilities and environmentally unacceptable practices.

At the other end of the spectrum the desk-top study will be followed by a thorough inspection

of the site, including (where appropriate) soil sampling and testing and monitoring of emissions and discharges to the environment.

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(An EC regulation under a directive does not require legislation by member states to implement it).

The spectre of a mandatory scheme is, however, not all together removed. The "scope and nature" of the scheme will be reviewed four years after the regulation comes into force. Mr Carlo Ripa di Meana, the Environment Commissioner, is thought to favour a mandatory scheme.

The current scheme, which has been given the catchy title of "Eco-Audit", provides that certain types of companies may seek registration under the initiative. Registration will involve a commitment to carry out an annual environmental audit and produce an annual environmental statement in accordance with the procedures laid out in the regulation.

The regulation sets out a number of mandatory requirements for an eco-audit, including compliance with national and local requirements. However, there is much in the form of guidance giving companies leeway in deciding on the scope and objectives of the audit and even the frequency at which an eco-audit should be conducted.

The environmental audit and the statement must then be verified by an external independent auditor. The certified environmental statement is then forwarded to a "competent authority" and is then available for public scrutiny.

The proposal to make the environmental statement available to the public caused some alarm. However, the annexes to the regulation state that the public may be the subject of negotiation and that a company may decide how to facilitate access by the public to the document and also the information contained therein.

The carrot held out by the Commission to persuade companies to register is that companies joining the scheme will be able to use the official Eco-Audit logo.

Perhaps recognising the limited appeal of yet another green symbol the regulation also provides that at the discretion of member states, companies registering may receive further rewards such as economic incentives and technical assistance.

Inspection and control requirements by regulatory

authorities may also be simplified for those companies registering and submitting certified environmental statements.

Registration of a company may be withdrawn if the certified environmental statement is not submitted within the prescribed time periods or if the company has failed to comply with the legal requirements for environmental protection. It may also be withdrawn if the company has failed to demonstrate a commitment to high environmental performance standards.

The discussion document is still in a fluid state and will require further consultation. The question, for instance, as to the role of the "competent authority" remains unclear. How the competent authority assesses whether to accept or reject an application for registration by a company has not yet been addressed.

Exactly which disciplines the external auditor will be drawn from also remains to be seen. However, the proposals on accrediting external auditors seem particularly stringent, perhaps to ensure that this "semi-privatised" form of policing is properly carried out.

The role of these auditors will be crucial as the environmental authorities may not in practice have the resources or the expertise to check environmental statements in detail. An Association of Environmental Consultants has recently been formed to safeguard standards in the environmental consultancy profession.

The draft document, such as it is, is the subject of a consultation exercise and it is expected that the Commission will be seeking to have a formal legislative draft by the autumn.

It remains to be seen whether in the long run the proposal turns out to be more than a paper exercise enabling some companies to reap the benefits of economic incentives and less stringent controls while not significantly improving their environmental performance.

However, if used properly, the environmental audit can be a valuable tool of self-regulation for a company helping it towards the goal of being an environmentally responsible enterprise.

The authors are solicitors in the environmental unit of City solicitors Linklaters & Paines

Weekend FT

Tomorrow: Crumbling spires - do Oxford's best days lie in the past?

Alsace: two countries for the price of one

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